



REPORT
OF THE
Burma Provincial Banking Enquiry
Committee, 1929-30

VOLUME I
BANKING AND CREDIT IN BURMA

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CONTENTS.

CHAPTER I.—INTRODUCTION.

PARAS.		PAGE
1	Origin of the Enquiry	1
4	Subjects of Enquiry	2
5	Central and Provincial Committees	3
6	Work for Central Committee	3
7	Work for Provincial Committees	3
9	Supplementary Enquiries	4
10	Personnel	4
12	Method of Enquiry	5
13	Questionnaire	6
15	Distribution of the Questionnaire	7
16	District Committees	8
18	Surveys (<i>First group</i>)	9
21	Other Surveys	11
24	Plan of Report	12
26	Inconvenient Season	12
27	Meetings	13
28	Cost of the Enquiry	13
29	Acknowledgments	13

CHAPTER II.—THE COUNTRY.

30	The Region of Enquiry	14
31	Population	14
34	Occupations	16
35	Crops	16
36	Paddy Cultivation	17
39	Cultivation in Lower Burma	19
40	Cultivation in Upper Burma	19
41	Industrialised Agriculture	20
42	Value of Paddy	20
47	Land-tenure	23
48	Occupation by Non-agriculturists	24
49	Size of Holdings	25
50	Fragmentation of Holdings	26
51	Land-records	26
52	Transfers of Land	26
53	Sentimental Attachment to Land	27
55	Areas Sold	28
56	Land Values	28
57	Area Let	29
61	Progress of Burma	31
62	Communications	32
64	Credit Expansion	33
66	Imports and Exports of Precious Metals	34
67	Newness of Burma	35

CHAPTER III.—BANKING AND CURRENCY.

PARAS.		PAGE
68	General Survey	36
70	Banks organised on Western Lines	37
72	Imperial Bank of India	39
76	The Exchange-Banks	42
79	The Oversea-Chinese Bank	43
80	Other Banking Companies	44
84	Private Banks	45
85	Other Banks	46
86	Clearing of Cheques	46
89	Currency	47
91	Currency Chests	48
92	Movements of Money	49

CHAPTER IV.—AGRICULTURAL INDEBTEDNESS.

97	Introductory	52
100	Volume of Indebtedness	52
107	Causes of Indebtedness	55
109	Money Economy	56
110	Agricultural Development	58
111	Vicissitudes	58
112	Lack of Investment Facilities	59
113	Depreciation	59
114	Buddhist Inheritance Laws	59
115	Religious and Social Customs	60
116	National Character	60
117	Speculative trading	61
118	Abuse of Cr��dit	61
120	Rise in Paddy Prices	62
121	High Rate of Interest	63

CHAPTER V.—SHORT-TERM CREDIT FOR AGRICULTURE.

122	Occasions of taking Crop-loans	64
130	Lenders of Crop-loans	67
131	Chettians	67
134	Indigenous Lenders	68
138	Other Private Lenders	69
139	Crop-loans supplied by Co-operative Societies	70
140	Crop-loans supplied by Banks	70
141	Crop-loans by Government	71
146	Preferences of Lenders	72
147	Preferences of Borrowers for certain Lenders	73
148	Amount of Crop-loans used	73
153	Time of taking Crop-loans	75
155	Forms of Interest	76
156	Rates of Cash-interest	78
161	Sabape	79
164	Sabanyun	81
165	Documents for Crop-loans	81
166	Conditions not expressed in the Documents	81
167	Security	82
169	Charges to Borrowers	83

PARAS.		PAGE
170	Deductions from Loans	83
171	Presents and Services	83
172	Defaults	84
173	Disputes	84
174	Influence of Crop-loans upon Marketing	84
175	Difficulties and Remedies	85

CHAPTER VI.—LONG-TERM CREDIT FOR AGRICULTURE.

179	Explanation	88
180	General Account	88
187	Long-term Loans by Government	91
192	Need for Land-mortgage Banks	93
193	Joint-stock Land-mortgage Banks	93
194	Co-operative Land-mortgage Banks	94
196	Special Legislation for Co-operative Land-mortgage Banks	95
198	Burma Scheme not for a State Bank	97
199	Present Position in Burma	97
200	Long-term and Short-term Co-operative Credit	98
201	Government Assistance	98
204	Land-mortgage Bank Debentures as Trustee Securities	99
205	Income-tax on Land-mortgage Bank Debentures	100
206	Function of Land-mortgage Banks	100
208	State-land in Upper Burma	101

CHAPTER VII.—CREDIT FOR MARKETING AGRICULTURAL PRODUCE.

209	Marketing of Paddy	102
227	Marketing of Groundnut	107
230	Marketing of Tobacco	107
231	Marketing of Cotton	108
236	Marketing of other Crops	109
237	Organisation of Markets for Paddy	110
240	Organisation of Markets for other Crops	111
243	Postponement of Marketing of Paddy by Cultivators	112
245	Marketing-Credit for Dealers	113
246	Licensed or Public Warehouses	113
247	Effect of Indebtedness upon Marketing	114
248	Taxes and Marketing	114
249	Conclusion	115

CHAPTER VIII.—CREDIT FOR INTERNAL TRADE.

250	Importers	116
252	Trade by Sea	116
253	Trade by Land-routes	116
257	Distribution of Imported Goods	118
259	Trade in Burma Produce	118
260	Agricultural Produce and Fish	118
261	Products of Cottage Industries	119
262	Products of Factories	119
264	Credit enjoyed by Wholesale Traders	120
266	Retail Trade	121
268	Credit given by Retail Traders to Customers	121
269	Credit enjoyed by Retail Traders	122
276	Improvement of Credit Facilities for Trade	125

CHAPTER IX.—CREDIT FOR INDUSTRIES.

PARAS.		PAGE
278	The Indian Industrial Commission	127
279	Current Finance and Fixed Capital	127
280	Industries in Burma	128
281	Large-scale Industries	129
282	Other Industries	129
287	Cottage and Factory Industries	131
288	Organisation of Small Establishments	132
291	Future Credit Facilities for Small Establishments	133
295	Rice-milling	134
296	Current Finance for Small Rice-mills	135
299	Part-time Occupation of Agriculturists	136
300	Part-time Occupations for Owners and Tenants	137
304	Part-time Occupations for Agricultural Labourers	139
305	Industries to absorb Agricultural Labourers	140

CHAPTER X.—MISCELLANEOUS CREDIT ... 141

CHAPTER XIA.—CREDIT INSTRUMENTS AND DOCUMENTS OF TITLE.

315	Credit Instruments in common use	146
316	Other Documents	146
318	Mortgage-bonds	147
319	Deeds of Hypothecation and Pledges	147
320	Guarantees	148
321	Promissory-notes	148
322	On-demands	148
325	Definition of Hundi	149
329	Nomenclature of Usance Hundis	151
330	Origins of Usance Hundis	151
331	Language of Usance Hundis	151
332	Form of Usance Hundis	152
333	Period of Usance Hundis	153
334	Payment of Usance Hundis	153
335	Discount of Usance Hundis	154
338	Decrease of Usance Hundis	155
339	Encouragement of Usance Hundis	155
340	Stamp-duty on Usance Hundis	156
349	Amendment of the Indian Stamp Act	157
350	Burmese Bills under the Negotiable Instruments Act	158
351	The term "Hundi"	158
352	Standardisation of Bill Forms	158

CHAPTER XIB.—REMITTANCE.

353	Payments at a Distance	159
355	Registered Insured Post	159
356	Money-orders	160
363	Remittances by the aid of Government Balances	163
369	Hundis	164
370	Origins of Demand Hundis	165
371	Language of Demand Hundis	165
372	Form of Demand Hundis	165

PARAS.		PAGE
373	Advice for Demand Hundis	166
374	Payment of Demand Hundis	166
375	Charge for Demand Hundis	166
377	Ease in obtaining Demand Hundis	167
379	Increase of Demand Hundis	168
380	Cheques	168
381	Drafts	168
382	New Methods of Remittance	168
383	Postal-orders	169
386	Postal-cheque Accounts	169
387	Giro Accounts	170
389	Postal Letters of Credit	171
390	Importance of Remittance Facilities	171

CHAPTER XII.—CO-OPERATIVE CREDIT.

391	The Present Conditions	172
393	Restriction of Loans	173
400	Co-operative Self-Government	175
403	Agricultural Charge	176
404	Rates of Interest upon Advances	177
405	Deposits	178
407	Current Accounts	178
410	Remittances	180
412	Exemptions from Stamp-duty and Registration Fees	181
414	Co-operative Societies and Income-tax	181
415	Debentures as Trustee Securities	182
416	Post-office Savings-bank and Co-operative Societies	183
417	Deposit of Public Funds with Co-operative Societies	183
418	Joint-stock Banks and Co-operative Banks	183
419	Connection with the Money-market	184
421	Co-operation and State-aid	185
423	All-India Committee on Co-operation	185

CHAPTER XIII.A.—INDIGENOUS BANKING.

424	Indigenous Banking is Indian Banking	186
425	Indigenous Bankers	186
428	The Marwaris	187
430	The Multanis	187
431	The Gujeratis	188
432	Conclusion	188

CHAPTER XIII.B.—THE CHETTIARS IN BURMA.

433	Introductory	189
435	General Description	190
438	Character and Customs of the Chettiars	192
442	Sodality	194
445	The Nattukkottai Chettiars' Association	195
446	Kinds of Chettiar Banking Business in Burma	196
448	Other Occupations	197
449	Chettiars as Owners of Agricultural Land	198
452	Clientele	200

PARAS.		PAGE
453	Spread of the Chettiers in Burma	200
454	Present Distribution of Chettiers	201
458	Chettiar Firms	204
462	Agencies and Out-stations	205
463	Out-stations of Therkuvattagai Chettiers	206
464	Establishment	207
465	Training	208
468	Chettiar Agent	209
471	Total Chettiar Capital in Burma	210
479	Sources of Working Capital	213
481	Average Cost of Working Capital	214
482	Proprietors' Capital in a Chettiar Business	214
483	Proprietors' Capital supplied on Agency Account	214
484	Proprietors' Capital supplied on Current Account	215
485	Advances from Joint-stock banks	215
489	Deposits by Non-Chettiers	218
498	Deposits by Chettiers	222
499	<i>Thavanai</i> Deposits	222
500	<i>Veyan Vatti</i>	223
501	Standardised Rates of Interest	224
502	Current Rate	224
506	<i>Thavanai</i> Rate	227
510	Interlendings	228
513	Cash Balances and Liquid Resources	229
521	Advances	232
522	Security for Advances	233
524	Rates of Interest	234
529	Documents	237
530	Charges for Documents	237
531	Verification of Accounts	237
532	Complete Repayments	237
533	Partial Repayments	237
536	Time for Repayment	238
537	Recall of Loans	238
538	Other Conditions of Loans	239
539	Office Arrangements	239
548	Remittances, Discounts and other Business	242
549	Distribution of Profit	242
550	Grievances	243

CHAPTER XIV.—OTHER INDIGENOUS FINANCIERS ... 249

CHAPTER XV.—PAWNBROKING ... 253

CHAPTER XVI.—COLLECTION OF CAPITAL.

588	Hoarding	265
591	Usual Investments	266
592	Jewellery	267
594	Current Accounts	269
598	Stamp-duty on Cheques	271
599	Fixed Deposits	271
600	Savings-banks	271
601	Post-office Savings-bank	271
616	Co-operative Savings-banks	276

PARAS.		PAGE
617	Savings-accounts in Joint-stock Banks	276
618	Government Securities	277
619	Post-office Cash Certificates	278
625	Other Government Securities	281
631	Government Securities in the Post-offices ¹	284
639	Stock-exchange	287
640	Investment-trusts	287
641	Insurance	288
642	Public Funds in Banks	288
645	Government Loans and Industrial Investment	290
647	National Thrift Committee	291

CHAPTER XVII.—LEGISLATION AND ADMINISTRATION.

648	Definition of "Bank" and "Banker"	292
653	"Banker" and the Bankers' Book Evidence Act, XVIII of 1891	293
656	"Banker" and the Indian Stamp Act, II of 1899	294
659	"Banker" and the Negotiable Instruments Act, XXVI of 1881 ...	295
667	"Banker" and the Indian Companies Act, VII of 1913	298
670	Customer	299
674	Enquiries before opening a Current Account	301
676	Enquiries before opening a Savings-bank Account	302
677	Crediting as Cash	302
679	Fraudulent Raising of Cheques	303
680	The Rejected Bill for the Amendment of the Negotiable Instruments Act	304
687	Protection of Banker paying Order Cheques	307
688	The Definition of Negligence	307
689	The Status of the Pass-book	308
693	Burmese Bills of Exchange	309
694	Usurious Loans Act	310
704	Licensing of Money-lenders	313
709	The Indian Insolvency Acts	315
	709 Cheques drawn by an insolvent	315
	712 Property acquired by a Bankrupt after Adjudication	316
	715 Protection of Banker against a Receiving Order	318
717	Delays in Recoveries in Civil Courts	319
	717 General	319
	718 Money-suits	320
	721 Mortgage-suits	321
	723 Sales of Immovable Property	322
	724 Interest <i>Pendente lite</i> in Money-suits from Date of Suit to Decree	322
	726 Interest from Date of Decree till Realisation	323
728	Transfer of Property Act to be redrafted	324
729	Power of Sale	324
733	Mortgages by Deposit of Title-deeds	325
751	Registration of Title in Land	332
754	Landholders' Certificates	333
755	Registration of <i>Lis Pendens</i>	333
756	Searches in Registration Offices	334
758	Registration Offices	335
760	Court-fees	336
763	Registration-fees	336

PARAS.		PAGE
767	Stamp-duties	338
770	Other Legislative Proposals	338

CHAPTER XVIII.—MISCELLANEOUS.

771	Civil Order and Education	339
772	Health and Efficiency	339
773	Buddhist Wills	339
775	Study of Banking and Accountancy	340
776	Price Statistics	340
777	Transfer of Property Amendment Act	340
778	Foreign Banks	341
779	Foreign Insurance Companies	341
780	Currency	341

CHAPTER XIX.—THE ESSENTIAL PROBLEM.

782	The Problem	343
784	A Difficulty of the Discussion	343
785	Reasons for the High Rate of Interest	344
786	Traditions of Earlier Times	344
787	The Newness of Lower Burma	344
788	Scarcity of Non-Chettiar Capital	344
791	Seasonal Employment	345
792	Omission to create Credit	346
793	Risks of the Lender	347
794	Vicious Circles	347
799	Some General Considerations	348
802	The Point for Attack	349
803	Reduction of Lenders' Risks	350
804	New Banking Organisation	350
815	Other Progress Indispensable	356

BANKING AND CREDIT IN BURMA

FIRST VOLUME OF THE REPORT OF THE
BURMA BANKING ENQUIRY COMMITTEE, 1929-30.

CHAPTER I.—INTRODUCTION.

1. **Origin of the Enquiry.**—The Indian Industrial Commission, 1916-18, reported that there was urgent necessity for the extension of banking facilities throughout India, and regarded the better organization of banking as an important preliminary step towards the advancement of Indian industries. It also pointed out (page 8 of its report) that the improvement of transport had led to increases of exports, and that the internal capital and its organization had proved ill adapted to the new conditions. In a special reference to Burma (page 32 of its report) the Commission remarked that the lack of banks had been a serious handicap to local trade and to up-country industries. The Commission noted further that Burmans had been deterred from investing in the organized industries and trade of Rangoon by the size of the operations and of the existing undertakings, and further the energies of Burmans had been absorbed by the extension of their agriculture; but Burmans were ready to invest in small rice, timber and oil mills outside Rangoon.

2. The External Capital Committee, which in September 1925 reported that, subject to certain limitations, the inflow of external capital into India is not only unobjectionable in itself, but is a valuable factor in assisting the economic development of India, went on to say as follows :—

It is more advantageous to India that its requirements for new capital should be supplied from internal rather than from external sources, so far as internal capital is forthcoming. The real solution of the problem of external capital lies in the development of India's own capital resources.

India possesses a vast store of dormant capital awaiting development; and, in order to make this available for investment, banking facilities must be increased and extended We would emphasise the importance of a co-ordinated survey being undertaken at the earliest opportunity of the whole field of banking in India. This should be followed by a detailed examination by an expert committee or committees of the lines along which progress should be effected.

3. In December 1925 the Government of India, following the External Capital Committee's recommendation, asked for the views of

local governments as to the best method of surveying the field of banking and of encouraging the development of banking in India. Meanwhile the Royal Commission on Indian Currency and Finance (1926) recommended the creation of a Reserve Bank for India ; and, as the Government of India thought the establishment of this bank would remedy some of the major defects of the Indian banking system and lead to considerable general improvement of that system, the enquiry recommended by the External Capital Committee was postponed until some experience of the working of the Reserve Bank had been gained. It was thought also that an important part of the proposed enquiry, namely, the financing of agriculture and facilities for agricultural banking, would be covered by the Royal Commission on Agriculture which worked from 1926 to 1928. When the Reserve Bank Bill was rejected by the Legislative Assembly in February 1928, the Government of India thought the question of a banking enquiry should still rest until the report of the agricultural commission, published in April 1928, had been studied. In December 1928 the Federation of Indian Chambers of Commerce and the Associated Chambers of Commerce both revived the question at their annual meeting, and the Federation passed a resolution urging the Government "immediately to appoint an Indian Banking Enquiry Committee with special reference to the system of indigenous banking with a view to develop and foster the same." Discussion between these groups of chambers of commerce and the Government of India ensued ; and the Government of India came to the conclusion that, as a step towards the construction of a sound system of credit and currency, a banking enquiry would be of value in throwing light on the actual situation throughout the country and in instructing public opinion as to the main requirements. Further discussion with chambers of commerce and with leaders of political parties disclosed a fairly general consensus of opinion that the enquiry should have regard to the needs of agriculture, commerce and industry, and should be directed to ascertain the existing conditions of banking in India, and to make recommendations for the improvement and expansion of both indigenous and joint-stock banking. It was further generally agreed that the enquiry should accordingly be divided into two principal stages, the first of which should consist of the collection of evidence and the indication of the main directions in which the opening up of increased facilities is required, while in the second the evidence and suggestions of the first stage should be studied by experts with wide experience.

4. Subjects of Enquiry.—The subjects to be covered by the enquiry were then analysed into three sections A, B, C, as follows :—

A. The regulation of banking, with the object of protecting depositors and thereby increasing confidence in the banking system.

B. Banking education, with the object of providing facilities for obtaining training in banking, and generally of creating a body of people who have a real knowledge of the principles and practice of banking.

C. The development and extension of banking on sound lines.

The last section was further subdivided into five sub-sections as follows :—

- (a) Industrial banks and credit facilities for India's main industries like cotton, jute, coal, etc.
- (b) Financing of foreign trade.
- (c) Agricultural credit (including co-operative credit) and credit facilities for small industries.
- (d) Mortgage banks ; and
- (e) Financing of internal trade in connection with all the above headings.

5. **Central and Provincial Committees.**—Then the Government of India set up (a) a Central Committee and (b) a number of provincial committees to deal with the special circumstances of different provinces. The present volume is the report of that one of these provincial committees which was appointed for Burma.

6. **Work for Central Committee.**—Sections A and B and sub-sections (a) and (b) of section C were made the direct responsibility of the Central Committee, which had also to co-ordinate the provincial committees and sift their reports and, with the aid of three or four experts from other countries, to make its own final report to Government upon the whole field of the enquiry.

7. **Work for Provincial Committees.**—The main matter for study by the provincial committees was thus contained in sub-sections (c), (d) and (e) of Section C of paragraph 4 above ; but they were permitted to make contributions also to those matters which were the special concern of the Central Committee, and were expected to make such contributions where there were special local conditions. The provincial committees were instructed that they should, amongst other things, (i) see how to provide for the cultivator the credit he needs for the improvement of his land and for the marketing of his produce ; (ii) devise means to stimulate the habit of investment and to attract banking deposits ; and (iii) make, with special reference to the "fabric of finance," intensive surveys of one or two selected areas in each province and a general survey of the province as a whole with regard to agriculture and to small industries allied or supplemental to agriculture.

8. Owing to all the special circumstances which have led to the agitation in Burma for political separation from India we considered that the Burma Committee ought to take a somewhat more comprehensive view of its duties than was necessary for the committees in other

provinces. We felt that, owing to the many differences of conditions in India and Burma, * the reports of other provinces would be less likely to cover omissions in ours than would be the case for other committees, and that, whether political separation came about or not, our report must be constructed largely as a report for a separate country, because we could not expect that measures suiting the average needs of other provinces would always suit Burma. We have also endeavoured to make our report intelligible to ordinary educated people of Burma unacquainted with the special terms or literature of banking ; if that has here and there given the report something of the character of a text-book, we trust our motive will excuse us.

9. Supplementary Enquiries.—Some little time after the appointment of the Burma provincial committee the Government of Burma asked it to accept the additional duty of making the enquiry, which the Royal Commission on Agriculture had recommended for every province in paragraph 365 of its report, into the causes of the failure to utilise the Usurious Loans Act † and the steps proper to ensure its application in future. Later still requests were received from the Central Committee to enquire into—

- (a) the subject-matter of the Negotiable Instruments (Amendment) Bill which was rejected by the Legislative Assembly in September 1929 ‡, and
- (b) income-tax in relation to co-operative societies §.

10. Personnel.—The members of the Burma committee were as follows :—

- (1) Mr. S. G. Grantham, I.C.S., Chairman.
- (2) U Aye, M.L.C. (*for Insein*), *Bar.-at-Law*, nominated by the Burmese, the Chinese and the Burma-Indian Chambers of Commerce to represent commerce.
- (3) Mr. Lawrence Dawson, *Managing Director of Dawsons Bank, Limited, Fellow of the Institute of Bankers, Bar.-at-Law*, representing agricultural interests in Lower Burma.
- (4) Diwan Bahadur A. M. M. Murugappa Chettiar, M.L.C. (*Madras Presidency*), *Banker in Burma and a Director of the Indian Bank, Limited*, representing indigenous banking.
- (5) Professor H. S. Jevons, I.E.S., *Professor of Economics at Rangoon University*, appointed as an economist.
- (6) U Ba Maung, *Manager of the Pegu Central Co-operative Bank, Limited*, representing the co-operative system.

* Throughout this report we use the term *India* to mean *India without Burma* unless the context implies that it includes Burma. This is an old-established practice in Burma.

† See paragraph 694 below.

‡ See paragraph 680 below.

§ See paragraph 414 below.

- (7) U Mya, *T.P.S., Manager of the Myingyan Electric Co., Limited*, representing urban interests.
- (8) U Shwe Tha, *K.S.M., retired Deputy Commissioner, Burma*, representing agricultural interests in Upper Burma.

Mr. Dawson was proposed by the Burma Chamber of Commerce to represent it on the committee, that is to say, to represent commerce on a large scale and banking on European lines. His appointment was not made on this ground because he had already been appointed to represent the agriculturists of Lower Burma and the Central Committee was thought to be more particularly occupied with matters interesting the Burma Chamber of Commerce; but it was inevitable that he should represent large-scale commerce and European banking on the committee as well as agricultural interests in Lower Burma. Originally U Hla Bu of Pyinmana who had been a member of the Committee which (with Mr. Calvert of the Punjab as its chairman) had enquired in 1928-29 into co-operation in Burma, was appointed to be a member. But ill-health prevented U Hla Bu from taking any part whatsoever in the committee's work until he resigned in November. U Shwe Tha was appointed only after U Hla Bu had resigned. The Diwan Bahadur was unfortunately called away to Madras in January, and then by unexpected circumstances prevented from returning until after the beginning of April, when much of this report had been prepared. Professor Jevons left Burma, on his retirement, before the report was complete; but assisted in the work except on the eight days of the last two meetings.

11. Mr. C. A. Vickers, I.C.S., was secretary to the committee from the 26th August to the 2nd December, when he was transferred to a judicial appointment and replaced by Mr. G. R. Morley, I.C.S. Mr. Vickers saw us through the preparation and issue of our questionnaire, while Mr. Morley carried on until the 17th April (when illness compelled him to go to England) and thus held the post while its duties were most important. After Mr. Morley's departure the secretary's duties were carried on by the Chairman.

12. **Method of Enquiry.**—It was first agreed that the enquiry should be made by a general questionnaire supplemented by (a) special questions addressed to suitable persons or bodies, (b) surveys of the financial conditions in sample areas and in the province as a whole, (c) a census of Chettiar firms working as bankers or moneylenders in Burma, and (d) the extraction from statistics collected by other agencies of figures of interest in connection with our enquiry. Oral evidence was contemplated as a means of clearing up difficulties in the written replies and for persons who expressed a wish to give it. But witnesses generally prefer to answer such questions as ours on paper, so that they have opportunity to reconsider and modify their answers, and so that they can do the work at their own convenience instead of appearing before the committee when summoned. Further, the summoning of oral

witnesses is expensive, since travelling expenses must be paid not only for the witnesses but also for the members of the committee. Moreover the latter were mostly busy men who lived far apart and could not afford to spend so much time as would be necessary in attending frequent or long committee-meetings to examine witnesses. We contemplated therefore that, as far as possible, questions arising out of replies should be asked in correspondence, or in visits by the Chairman ; this plan was followed, the original replies of the witness being corrected or amplified as the witness directed. In some cases a copy of all the replies received to particular questions, or a précis of them, accompanied in some instances by other arguments or by a statement of the provisional views of the committee, were sent for comment to persons particularly interested in the problem involved*. In the event no witnesses were *formally* examined orally although we never decided to dispense with such examinations absolutely, but always regarded them as available for us if circumstances to which they were appropriate arose.

13. **Questionnaire.**—The Central Committee issued for the guidance of provincial committees a standard form of questionnaire which is reproduced in the second volume of this report. We were disposed to criticise the standard questionnaire in several particulars ; e.g. the restriction of the enquiry into negotiable instruments to their use in the marketing of crops, and an appearance of confusing the use of current finance with dead-weight indebtedness. The questions too were put in a general form which, we felt, was not likely in Burma to elicit the information as to concrete facts which we thought was necessary. Finally there was the difficulty of translating the questionnaire into Burmese. We thought that the field of enquiry was such that we could not be satisfied unless we got evidence from actual agriculturists industrialists traders and moneylenders, or from people in as close contact with them as possible. A translation was prepared with the generous aid of U E Cho, the Government Translator of that time ; but U E Cho himself thought that a translation intelligible to the classes we wished to reach (and in the meantime had been asked by the Central Committee to try to reach) could not be made without reconstructing the questionnaire. Accordingly, although time had already been lost in attempting the translation of the standard questionnaire, a new questionnaire was constructed in which concrete facts were directly sought as well as opinions and suggestions. The Burmese rendering of every question was considered as each question was framed ; and in many cases a question was re-drafted on this account or framed first in Burmese and translated into English. We further designed the questionnaire so that

* Some of these gave confidential replies which could not be published in the evidence volumes of our report although we could and did use them for our guidance.

the report could follow the same plan, save that for reasons to be explained in the next paragraph, we allowed the repetition of some questions. All this involved a great deal of work ; but the time was well spent in the preliminary study which we gave to the subject-matter of each question to enable us to express its real point. We had held our first meeting in September and appointed sub-committees to deal with parts of the questionnaire; the English version was issued with thirteen chapters just before the middle of November, and the Burmese version (omitting chapters XII and XIII) soon after. A Tamil version was also prepared for Chapters IV to VII and XI and issued at the end of November, scarcity of Tamil type causing delay in printing. We were indebted to Mr. Vellayan Chettiar, son of the Chettiar member of the committee, for his kindness in preparing the Tamil translation. The English and Burmese versions of the questionnaire are reproduced in the second volume of this report ; owing to shortage of Tamil type the Tamil version could not be given there without unreasonable expense.

14. A questionnaire designed to elicit concrete facts throughout such a wide sphere of study could not be short. We accordingly arranged our questions in chapters and invited witnesses to take up the particular chapter or chapters which interested them most. A few questions relating to subjects of two chapters were therefore repeated in both chapters so as to elicit the views of different kinds of witnesses. In other cases a note drawing attention to related questions in other chapters was given. The allotment of work to district committees, as described below, made these arrangements particularly desirable.

15. Distribution of the Questionnaire.—The questionnaire was sent out to all the district committees described in the next paragraph and to all divisional commissioners. Copies were sent to the heads of the co-operative and agricultural departments for distribution to officers of those departments. The Registrar of Co-operative Societies, besides sending out questionnaires to individuals, arranged a conference to frame a departmental reply. Various officers of Government whose duties brought them into contact with any of the problems of the questions or with people concerned in them were also supplied with copies of the questionnaire, and in several cases a letter drawing special attention to particular questions likely to be of special interest to the addressee was sent with them. Copies were sent to all joint-stock and other banks working on European lines, to a number of indigenous financiers in Rangoon, to all chambers of commerce, agricultural societies and associations of bankers, traders or landowners that could be discovered and to a number of other persons believed to be interested ; in many of these cases also a forwarding letter drew attention to particular parts of the questionnaire. In some of these letters the addressee was asked if we might send him later on for comment the evidence received on certain questions from other sources. At the very beginning

a *communiqué* was sent to all the newspapers drawing attention to the standard questionnaire (which was published by some of the newspapers, generally on the same day as the *communiqué* or within a day or two of that) and inviting all who were interested in the subject as exhibited in the standard questionnaire to apply for a copy of the Burma questionnaire. A few responses were received, and of course all were attended to. Letters were also sent to deputy commissioners to tell them the names of indigenous financiers, other than Chettians, whom it was desirable to consult ; where these were not members of the district committee or being consulted by it, the deputy commissioner was asked to send them a copy of our questionnaire for individual reply. Generally two copies of the questionnaire were sent to each person or association to facilitate consultations ; more copies were sent when they were known to be required or were asked for. District committees commonly used 20 or more English copies, 12 or more Burmese copies, and 5 Tamil copies. Altogether over 1,200 copies in English, 650 in Burmese and 200 in Tamil were distributed. Besides replies from district committees and district officers replies were received from 24 officials, from 1 Chettian and 7 other associations, and from 2 Chettian and 10 other private individuals (besides U Shwe Tha who afterwards became a member of the committee). The bankers did not submit replies to the questionnaire, but answered specific enquiries addressed to them in letters. The exchange banks and the Indian joint-stock banks considered that, as the provincial committee was an agent of the Central Committee, it was best for their representations to be made by their head office which could speak authoritatively ; of the banks which have headquarters in Burma Dawsons Bank, Limited, had its managing director on the provincial committee (but its manager gave some evidence included in the record of Survey III in the second volume of this report) and the others sent us no replies. A list of all who replied to the questionnaire is given in the second volume of this report.

16. District Committees.—At an early stage we recognised the desirability of arranging some means for reaching the ordinary agricultural, industrial and commercial borrowers of the country. It was clear we should not reach them effectively by simply sending out copies of the questionnaire, however large an expense we incurred. Accordingly a preliminary draft of the questionnaire, incomplete and rough but sufficient to show the scope and general nature of the enquiry, was sent to all deputy commissioners (except in the hill tracts and similar districts) with a request that they would arrange to form one or more committees in readiness to deal with the finished questionnaire about the middle of November when we promised to send it to them. The object of getting first-hand information from borrowers as well as lenders was explained, and the advantages of forming sub-committees to study the

questionnaire in different localities or to study particular subjects were mentioned. We further explained that we hoped the comparison of experiences and the conflict of opinions in the district committees would exclude unreliable or one-sided information and undigested views, as well as assist us by summarising the views of each district in a single document, and by expressing those views in English so as to avoid the expense of translation. We thus provided that the questionnaire would receive the attention of the classes we desired to reach and that their views would reach us. But further arrangements were still necessary to ensure that all sides of the enquiry received attention in this way. Accordingly divisional commissioners were also supplied with the preliminary draft and asked to allot parts of the questionnaire to each district of their division, so that every part would be treated in at least one district and in more when the variation of conditions affecting its subject or special capacity for dealing with it made that desirable. We were thus able to ensure that every part of the questionnaire received attention in a representative locality in every one of the commissioners' divisions, and at the same time to avoid unnecessary duplication of work by district committees and much useless repetition of evidence. It was arranged also that a copy of each district's reply should be sent to the divisional commissioner at the same time as three other copies were sent to us, so that the commissioners might send us their comments. Commissioners were also invited of course to send their own replies without restriction to the matters treated by the district committees.

17. Eight questions (Nos. 54 to 61) were marked to be answered by deputy commissioners personally with the aid of the district committee and such officials and others as could help them. A letter to deputy commissioners asked them to use their influence so that district committees should answer fully questions as to actual facts, and to encourage members of those committees to enquire for complaints and difficulties as widely as they could and to report them. The importance of getting the fullest possible record of facts and difficulties, even if no way of removing the latter could be suggested, was pointed out. We also asked district committees not to shrink from offering remedies even if these could not be completely worked out. We reminded them that partial solutions from different sources might assist each other, and that it might be useful even if they could only indicate a direction in which a solution might be sought with hope of success.

18. **Surveys (*First Group*).**—In considering the task of making the surveys which, as mentioned in paragraph 7 above, we had been enjoined to make, we met two preliminary difficulties. One of these was the determination of the kind and size of staff that would be economical and suitable to the work; the other was the selection of lines of enquiry and limitation to suitable areas so as to get the best

value for the money to be spent and to achieve something in the limited time at our disposal. Some of us leaned towards the view which we understood to be the view taken in some other parts of India, namely that something in the nature of a general economic survey of two or more selected districts should be undertaken. Others thought that, so far as rural areas were concerned, the enquiry should be concentrated upon the borrowings of owners and cultivators of agricultural land (including labourers) to finance their regular annual operations and household expenses, and should be allowed to extend beyond this only so far as might be necessary to provide the background for that study. In particular they thought that, having regard to the information on the subject already available, enquiries into indebtedness of agriculturists (distinguishing indebtedness from the use of money borrowed for current finance or for long-term enterprises) should be made only to show the effect of indebtedness upon the security offered. They thought that the enquiry should properly extend beyond agriculturists to the financing of shopkeepers artisans and small industrialists ; but they did not expect to have time for such extension. An experimental survey, on lines between the two views above, but favouring the latter, was made in Pyapôn district with three investigators under the special direction of a member of the committee (Mr. Dawson) ; while another experiment, following the restricted view more closely, was made in Insein district by the committee's secretary. As part of Mr. Dawson's plan the secretary also made some enquiries from Chettiars and other lenders of money, and from millers and shopkeepers in four towns of the Pyapôn district. the enquiries in Pyapôn town being made in company with Mr. Dawson himself. Extracts from the records of these experiments are given * in the second volume of this report. With experience thus gained we decided to follow the more restricted view of the nature of the survey, and to select for the work a few groups of villages as samples of important regions of the country. We also engaged for the purpose two of the investigators who had been employed for the experimental enquiries and arranged for them to work under the direction of our secretary. In the meantime the incumbent of the post of secretary to the committee had been changed, so that unfortunately Mr. Morley, who carried on the work, had not the advantage of experience of the experimental work.

19. Eventually enquiries were made in three groups of villages. One group in Pyapôn district represented the delta; one in Insein district represented the ordinary non-deltaic areas in the general paddy-plain of Lower Burma; one in Mandalay District represented areas irrigated by Government Canal in Upper Burma. There was no time to take up a sample of unirrigated areas in Upper Burma. Statistics.

* Under the titles of *Enquiries in Pyapôn District* : (a) Rural (b) Urban.

collected in these surveys are given* in the second volume of this report. Some of the results will be quoted in the present volume ; knowledge gained from them and also from the experimental surveys has also helped to mould our views in some cases in which direct reference is not made.

20. The season in which we had to make these surveys was perhaps the most inconvenient possible. Our committee was appointed in August and asked to report in April. We had to enquire into the finance of the operations of 1928-29, and the recollection of this in the minds of cultivators and others examined was of course confused by the financial transactions of 1929-30, which were already far advanced though not far enough to be the subject of our enquiry. If such enquiries are to be made at one epoch they should be made just after the cultivators have made the disbursements which follow harvest. Really however the only satisfactory way would be to station each investigator in a convenient centre for a whole year, and to let him make regular visits on the same day every week to each of a number of surrounding villages, keeping a record of borrowings and expenses as they take place.

21. **Other Surveys.**—While the rural surveys described above were proceeding by enquiries chiefly from borrowers another enquiry was made from lenders. For this a questionnaire was prepared to supplement the general questionnaire with questions which were particularly addressed to professional lenders of money. Enquiries from Chettiar lenders were of course an important part of this work, and for this we gladly accepted the gratuitous assistance of Mr. Vellayan Chettiar, who is a son of the Chettiar member of our committee and made enquiries for us in Bassein, Moulmein, Gyobingauk and Pakôlku. A summary of the replies is given † with the questions in the second volume of this report.

22. Surveys of a different nature were made in Myingyan, Pegu and Môngywa Towns by two members of the committee, U Ba Maung and U Mya, whose reports are given ‡ in the second volume of this report. Plans were made for similar surveys of Prome and Yangoon; but the members to whom these were delegated could not make time for them.

23. Still another group of surveys were made by asking district officers to submit short reports on the financing of local industries ; their reports are given § in the third volume of this report. Mr. Macgregor, the Postmaster-General, Burma, kindly answered a special set of questions addressed to him and furnished or helped us to compile some

* Under the title of *Agricultural Finance in Selected Localities*.

† Under the title of *Financial Surveys in Selected Towns*.

‡ Under the title of *Lenders in Selected Towns*.

§ See the appendix to Chapter III, page 337, of that volume.

statistics ; both the replies and the statistics are given in the second volume of this report. A census of the Chettiar banking community in the province was undertaken as described in Chapter XIII^B below, and various miscellaneous statistics were collected ; some of these are reproduced in the second volume of this report. An endeavour which consumed much of the chairman's time was made with the assistance of Professor Jevons and generous help by Mr. Aggarwala, the Currency Officer, to study the fluctuations of the currency in Burma; but this was infructuous.

24. Plan of Report.—Our report is being issued in three volumes of which this is the first and contains the report itself, while the other two may be described collectively as "Evidence". The second volume contains information collected in the various surveys and in special questionnaires, and also reproduces our general questionnaire in English and in Burmese.* The third volume contains the replies to the general questionnaire.

25. We originally intended that the present volume should follow the plan of our questionnaire so that the replies to this could be arranged by subjects and presented in parcels corresponding (subject to inevitable overlaps) to the consecutive parts of the report. The question of the plan of provincial reports was not taken up by the Central Committee until January when a large part of our evidence was already in the Press. We recognised the value to the Central Committee of a uniform plan in the provincial reports which it had to study; and we have followed the prescribed plan although it was not altogether suitable for Burma conditions, and did not permit us to present the evidence and the report on parallel lines.

26. Inconvenient Season.—The difficulties inherent in our enquiry were increased by the season in which it had to be made. The committee was appointed in August and held its first meeting at the beginning of September. Even if the standard questionnaire could have been used, district committees could not have been organised to deal with it before the open season of district officers' began. The unsuitability of the season for our rural surveys has already been mentioned. Finally we had to study the evidence and prepare our report just at the time when most of us have the busiest season of the year in our private avocations, so that we have not been able to study some matters as fully as we wished. The strike in the Government Press kept some evidence out of our hands for a long time and entailed much extra labour; the dislocation of the office first by earthquake and then by riots further delayed the completion of our report.

* A detailed list of the contents of the second and third volumes is given at the end of this volume.

27. **Meetings.**—We held 13 meetings occupying altogether 31 days. In addition there were five sub-committee meetings, two lasting all day and the others for an hour or two.

28. **Cost of the Enquiry.**—We have asked the chairman to have a note of the cost of the enquiry added at the end of this report.

29. **Acknowledgments.**—We wish to acknowledge our indebtedness to all who have helped us in our enquiry. These include a number of private persons who replied to our questionnaire or sent notes on various industries and trades ; also a number of public servants who dealt with the questionnaire or helped in the preparation of statistics. We are grateful to bankers and others who helped us with notes or by private discussions with individual members. We owe an acknowledgment to the Managing Governors of the Imperial Bank of India for their kindness in supplying us with statistics of the business done at its Burma branches, although permission to publish them in this report could not be given. We thank the officers and committee of the Nattukkottai Chettiars' Association of Rangoon for the cordial help they have invariably and frequently given. We are grateful to Mr. Vellayan Chettiar for the help which he gave us by the enquiries described above. Our thanks are due also to Mr. Morley, who as our secretary took great interest in the work and never spared himself in our service ; he was of great value to us all the time he was with us. We further record our indebtedness for the self-sacrificing labours of deputy commissioners and other district officers throughout the country ; many of these gave up their Christmas holidays to deal with our questionnaire besides giving a large amount of other time. Finally we express our thanks to the large number of private persons who shared in the arduous work of district committees and sub-committees. Many of the members made considerable material sacrifices in doing the work ; none of them received any remuneration or any re-imbursement of expenses. The country is indebted to them for their generous response to our appeal.

CHAPTER II.—THE COUNTRY.

30. **The Region of Enquiry.**—Burma is the largest province of India and has an area approximating to 230,000 square miles. Much of this, however, is in undeveloped border districts with rather vague limits in parts; one-fourth of it is in the Shan States and Karenni States which were excluded from our enquiry. Excluding some entirely undeveloped regions as well as all these, about 135,000 square miles may be taken as the part of the country with which this enquiry was closely concerned. This region of enquiry is conveniently regarded as composed of the five main divisions about to be mentioned, the first three being the most extensive and most thickly populated :—

- (i) The delta of the Irrawaddy, with an annual rainfall of 100 to 120 inches ;
- (ii) The dry zone of Upper Burma extending from Thayetmyo * and Yamèthin districts to Shwebo district, having an annual rainfall of 25 to 35 inches and including large areas of irrigated land ;
- (iii) An intermediate tract of Lower Burma between the two tracts mentioned above ;
- (iv) A wet zone to the north of the dry zone with an annual rainfall of 50 to 100 inches ; and
- (v) The wet areas of Arakan and southern Tenasserim with an annual rainfall of 120 to 250 inches.

31. **Population.**—The population of the whole province in 1921 was 13·2 millions, and for the area of our enquiry may be estimated now at about 12·5 to 13 millions. The rate of increase of the population is a matter for rather complicated discussion. In the censuses of 1901, 1911 and 1921 the rates for the preceding decades have been 20, 15 and 9 per cent. Whether this decline indicates a falling off in the growth or is part of a cycle of high and low rates is a matter on which light from the census of 1931 is awaited. The greater part of the population in the area of our enquiry is of the Burmese and other indigenous races ; but about 7½ per cent. are Indians and a little less than 1 per cent. are Chinese. Of the indigenous races the most important are

* Thayetmyo District is in Lower Burma ; the rest of the dry zone is in Upper Burma.

the Burmese who make 76 per cent. of the whole population and the Karens who make 8 per cent. Europeans and Anglo-Indians together make only about 1 in 500 of the population. The indigenous races are nearly all Buddhists. There are almost no depressed classes and the very idea of caste is unknown to all the indigenous people except a few of the highly educated who know it only as an Indian peculiarity. The women have a peculiar degree of freedom. Burma may fairly be said in fact to have sexual equality ; in some matters one sex has more power, but in others the case is different. Women carry on much of the petty trading and have much influence over their husbands in most business transactions ; indeed they are often the real controllers and not always behind the scenes. Burman Buddhists are unable to make a will ; after death their property is divided amongst spouse and children according to certain rules.

32. In language the area of our enquiry is surprisingly uniform ; the ordinary language everywhere in it is Burmese, and it is subject to almost no local variations except in the Akyab, Tavoy and Mergui districts. The proportion of literate population is high, owing to the influence of the monastic system amongst the Buddhists ; in the area of our enquiry the proportion of persons over 5 years of age who were shown as literate in the census of 1921 was 563 and 127 per thousand for males and females respectively ; these figures are four or five times as high as the corresponding figures for all India. Knowledge of English is confined to a small class in the towns, but seems to be beginning to spread rapidly. The number of books published in 1928 was 92, of which 37 were in Burmese, 28 in Pali-Burmese, 14 in Pali, 10 in English and 3 in other languages ; 38 of the books were religious works, none dealt with banking or finance. There are 53 newspapers, of which 19 are in Burmese and 18 in English ; Rangoon publishes 43 newspapers. The number of other periodicals (excluding Government publications) is 72, of which 27 are in English and the same number in Burmese ; 45 periodicals are monthlies. Altogether there are 370 printing presses.

33. There were in 1921 eight towns with a population exceeding

20,000 as shown in the marginal table where		
Rangoon	...	342
Mandalay	...	149
Moulmein	...	61
Bassein	...	43
Akyab	...	36
Tavoy	...	27
Prome	...	26
Henzada	...	24

the numbers represent thousands of population in 1921. Mandalay, Prome and Henzada are important trading centres on the Irrawaddy river, Prome being a rail-head and Mandalay an important railway station and the marketing centre of Upper Burma. All the other five towns shown are sea-ports ; one of them, Tavoy, is not of much importance as a sea-port now. Rangoon easily surpasses all the others put together in the magnitude of its trade.

34. Occupations.—The most important occupation is agriculture. In addition forests and mineral oil are important subjects of activity. The principal industries are those connected with rice-mills, saw-mills, oil-refineries and transport by road, rail and river. Roughly 70 per cent. of the working population is employed in cultivation, about 0·6 per cent. in forestry, 0·7 per cent. in raising farm stock, 2 per cent. are occupied with wild animals and minerals and 1 per cent. are rentiers of land. Altogether this accounts for about 74 per cent. of the working population occupied with land and the production of raw materials. A further 8 per cent. are employed in industries, 4 per cent. in transport, 10 per cent. in trade and finance, 3½ per cent. in public services, the professions and liberal arts, and three-quarters of 1 per cent. in domestic service. (The numbers supported by these groups of occupations would differ slightly because of the larger proportions in industry and commerce of Indian immigrants who have no dependents in Burma). Amongst the indigenous population of Burma there are not distinct classes of people following particular occupations, except small numbers of grave-diggers and others forming the small depressed classes. Burmans are highly versatile and even fond of a change of occupation; there is no restriction to the variety of occupations almost any one of them will take up. At the same time there is no attempt to supply all local needs within narrow areas; rather some localities specialize in particular products which are distributed widely.

35. Crops.—The principal crop everywhere, except in some parts of the dry zone, is paddy, which is the grain that when husked yields rice.* In the dry zone paddy is grown in irrigated areas and favourable valleys; while on the higher land millet (jowar) maize, cotton, sesamum, ground-nut and beans are the principal crops. Below are shown the areas on which the principal crops matured in 1928-29, reckoned in terms of thousands of acres, the total cultivated area being about 17·2 million acres sown and 16·1 million matured†.

Paddy	...	12,056	Fruit, includ- ing plantains.	459	Other food- grains, includ- ing pulses.	140		
Sesamum	...	1,082	Cotton	...	303			
Beans	...	879	Maize	...	198	Rubber	...	114
Groundnut	...	599	Fodder	...	169	Tobacco	...	114
Millet	...	491	Gram	...	167	Vegetables	...	105

* Paddy is also used as the name of the rice plants in a field regarded collectively. The term will be used freely in both senses in this report as there is never danger from confusion. The term "unhusked rice" has been used in some reports for the grain.

† Nearly 0·76 million acres were sown more than once and counted once for each sowing in these figures. If these are counted only once the figures are 16·5 millions sown and 15·5 matured. All the figures in this paragraph have been taken from the official *Season and Crop Report, 1928-29*.

For all these figures the cultivation in the Shan States has been excluded and the contribution from undeveloped border areas outside our enquiry is negligible.

36. Paddy Cultivation.—It appears that on an average about 80 per cent of the land grows paddy ; in some districts of Lower Burma the area under other crops is less than one per cent. The number of varieties of paddy grown is very large ; consequently there is great variation in the shape, size and quality of the grain. As such variation makes milling difficult and causes a large amount of broken rice to be produced the price of the paddy is correspondingly reduced. The Agricultural Department is taking active measures to produce types which are specially suited to the export trade and comparatively few in number. It possesses for the purpose an organisation of central experimental farms and seed farms, and the total rate of distribution of pure and improved seed (now in the neighbourhood of 3,000 tons per annum) is expected to increase rapidly in the near future. The improved strains issued by the department fetch premiums of from Rs. 5 to Rs. 15 per hundred baskets of paddy when offered to mills in sufficiently large quantities. The question of fertilizers for the crop is being carefully studied on the experimental farms ; it has been proved that by the use of some of the ammonium-phosphate compounds newly put on the market net profits as high as Rs. 15 per acre may be expected with present paddy-prices. Two large firms have established agencies for the sale of these fertilizers and are recruiting a corps of demonstrators for the purpose of explaining their use to cultivators. The normal annual outturn of paddy for all Burma is now nearly seven million tons ; these yield a little over five million tons of husked rice, of which nearly three million tons are exported. The greater part of the paddy is produced in Lower Burma which in 1928-29 included 80 per cent of the total area of 12·1 million acres. Lower Burma's share of the outturn is even larger, amounting to 86 per cent. of the total ; that is to say about six million tons of paddy and over four million tons of rice.

Year.	Millions of acres.	37. The rate of development of paddy cultivation has been very striking, as the marginal table shows. Fifty or sixty years ago most of Lower Burma, which has included every year the greater part of the areas here shown, was covered with jungle ; but nearly all of it has now been cleared and cultivated. The rate of increase of cultivation has slowed down since 1906 ; in fact there is no longer at any particular moment a large area available for extension in Lower Burma where the great extensions of the past have taken place. But all
1896	5·5	
1906	9·3	
1916	10·6	
1926	11·6	
1929	12·1	

along the southern edge of cultivation in the delta there is every year a little more land becoming cultivable through a rise in its level owing to further deposits of river-silt, and pioneers are always pressing cultivation as far as possible, so that it would be rash to estimate narrow limits for future extensions. Moreover there is room for extension in the north, and the river-training system used by the Forest Department is annually making large areas culturable in the middle parts of Lower Burma. As the table shows, there has been a regular extension of about 100,000 acres per annum since 1906 in the country as a whole and much land is still of recent clearing. Much of the land recently brought under cultivation in all parts of the country is probably of too little yield at present to be profitable with paddy prices at their present level ; some of this is likely to be abandoned till those prices improve ; some in the delta will improve in yield with the passage of time and perhaps continue under cultivation although its ownership will probably pass to the creditor who financed its clearing.

38. The great original stimulus to paddy cultivation was the strengthening of the demand for rice in Europe which resulted from the introduction in 1872 for the rice-export trade of steamships passing through the Suez Canal and charging lower freights than had previously been possible. The export of rice in 1861-70 averaged only 363,000 tons per annum, although in three of those nine years it had been abnormally increased by special demand resulting from famines in India and China ; now-a-days, as noted above, over eight times as much is exported. In 1867 there were only three steam rice-mills in Burma ; in 1872 there were 26 ; at the end of 1929 there were altogether 657 using steam or oil-engines and 15 of them were large mills employing over 500 persons at once. The smaller mills are found near railway-stations or at convenient places on the numerous creeks of the delta. In large parts of Lower Burma and in some parts of Upper Burma this development of mills has changed the domestic economy so that even agriculturists no longer have paddy for their own consumption husked by the women of the family, but send it to the local mill in quantities as small as fifty gallons to be husked for them. The mills required a large amount of cooly labour, and this was supplied by Indian immigrants. These came for various kinds of work, but the paddy-milling was the principal stimulus. Many of them stay for only a year or two ; so the traffic between India and Burma is large, and Rangoon is said to be the largest port of emigration in the world and second only to New York for immigration. Indian coolies expecting to be employed in the mills soon began to come earlier in the season and take part in reaping the paddy in the neighbourhood of Rangoon ; this custom has spread to cover several districts, and the system of cultivation has been so adapted in these that the whole crop on each holding will ripen at once

and be reaped by one of the large gangs of Indian coolies that go about at harvest-time for this purpose. In other parts a holding is reaped by two or three men who complete the work in four to eight weeks, cultivation of the different parts being arranged so that they will ripen successively and make this plan possible. The selection of the kind of paddy grown is of course affected by these methods of reaping. From reaping and milling the Indians have gone on to all kinds of agricultural and urban labour. The average size of holdings has been determined in wide areas by the special conditions developed in growing for export and resulting from a labour-supply also due to the export trade. In fact the effects of the change can be traced into every detail of the agricultural system and indeed into every side of the national life. Summarising one part of them we may say that agriculture in Lower Burma is primarily organised to produce not for home consumption but for export.

39. Cultivation in Lower Burma.—Nine-tenths of all the cultivated area of Lower Burma is under paddy. The other principal crops in Lower Burma are the dhani palm, fruit (including plantains), vegetables, rubber, tobacco, beans and maize. All the rubber of the country is grown in Lower Burma. Three-quarters of the total area under fruit and vegetables and half the total area under tobacco are in Lower Burma too. The area under beans in Lower Burma forms only about 6 per cent of that in the whole country and maize only about 18 per cent. There are also very small areas in Lower Burma growing sesamum, groundnut and cotton. Of the total cultivated area in Lower Burma the percentage under fruit and vegetables is 5, while one per cent is under rubber, a little over one half per cent each under tobacco and beans and one-third per cent under maize. These with paddy make up 97 per cent of the whole.

40. Cultivation in Upper Burma.—Other crops than paddy, fruit, rubber and tobacco are chiefly grown in Upper Burma, where there has also been a great change in the last forty years. Before that the main resources of Upper Burma were precarious crops of rice, sesamum, a short-stapled cotton, and millet and the raising of cattle. Irrigation has since made the rice-crop secure in wide areas ; groundnut was introduced in 1905, more varieties of beans are now grown. Lower Burma can be relied upon to buy increasing quantities of sesamum and groundnut-oil and cattle ; and altogether Upper Burma is fairly prosperous and free from the weakness of reliance upon a single crop. The percentages by crops of the total cultivated area in Upper Burma are roughly as follows : paddy 35, sesamum 17, beans 13, groundnut 9, millet 8, cotton 5, fodder 3, maize 2, gram 2, fruit

and vegetables 1, tobacco 1, condiments and spices 1, and all others 3.

41. Industrialised Agriculture.—Lower Burma seems to differ from every other part of India in the degree to which its agriculture has been not only commercialised but industrialised. In a great part of it specialisation of function has been carried as far as is possible in agriculture, so that ploughing, the pulling of seedlings from the nursery, the transplanting of those seedlings, the reaping of the crop, carting to the threshing floor, the threshing, and the digging to repair the petty embankments of the fields are all carried out by different agencies. There are many villages inhabited almost solely by landless labourers. These are not all poverty-stricken ; some own cattle which they hire out because they would rather have a labourer's wages and the supplementary income so obtained than take the risks of farming. As they get older they tend to become tenants because they like better to live in their own homes with their families than to live in their employer's house, as labourers employed by the season do ; moreover as age increases employment as a labourer is harder to get, less congenial, and more liable to losses of wages through interruption of work for reasons of health. In some parts women take a great part in transplanting and reaping ; but transplanting in the delta is done by men because of the depth of water in the fields.

42. Value of Paddy.—From the point of view of cultivators in Burma as a whole the variation year by year in the market-price of paddy is shown reasonably well by the variation of the average of the prices of "boat paddy" in Rangoon on the Fridays of January, February and March each year. (These are published in the *Burma Gazette*). The price of paddy is always given in Rangoon as the price of 100 nine-gallon baskets and with the understanding that for each consignment an addition of $2\frac{1}{2}$ per cent of the quoted price will be made for every pound excess above 46 pounds of the average weight of one basket of the consignment. Prices in other places are quoted differently but are governed by the Rangoon price. Variations in quality in successive harvests may change the number of pounds for which the weight-allowance is reckoned, and so cause cultivators to receive a different price although the quoted price is the same. Few areas in fact sell their paddy so early as January, and many sell later than March. Other kinds than "boat paddy" carrying a different price are produced. But while these matters would require attention in dealing with any local area or with the price of a particular year, the three-months average described above is suitable for studying the variation year by year for the country as a whole.

43. In the accompanying statement the quoted price of paddy is

Year.	Quoted price.	Index Nos.		Quotients.	
		Calcutta.	Rangoon.	Calcutta.	Rangoon.
(1)	(2)	(3)	(4)	(5)	(6)
1915	98	112	102	88	96
6	105	128	115	82	91
7	111	145	138	77	80
8	97	178	160	55	61
9	124	196	190	63	65
1920	180	201	201	90	90
1	156	178	199	88	78
2	186	176	177	106	105
3	182	172	174	106	105
4	192	173	176	111	109
* 1925	178	159	164	112	109
6	184	148	154	124	119
7	182	148	148	126	126
8	169	145	138	116	123
9	159	142	133	112	120

given in column 2 for fifteen years from 1915 to 1929. In columns 3 and 4 are given index numbers of general prices in Calcutta and Rangoon. The quotients obtained for successive years by dividing the quoted price of paddy by either of these index numbers give by their variation a rough indication of the variation in the real purchasing power

obtained by the cultivators for their paddy.* The average quoted price for 1905-14 was Rs. 119'5 ; for 1910-14 it was Rs. 126'6 ; this last figure may reasonably be taken as not more than the ordinary value of either quotient in the last few years before 1914, since both sets of index-numbers have their root in 1914, and the average value of the Calcutta index for 1910-14 must have been about 90.† As most of the quotients are below both 119 and 126, and some far below, it is at once apparent that paddy cultivators have received a much smaller real value in the last fifteen years than in the last few years before 1914.

* The index-numbers for Calcutta are taken from page 510 of the Indian Trade Journal of the 28th November 1929 and are the arithmetic means for calendar years of monthly index-numbers based upon the prices of 72 commodities, the monthly index for July 1914 being taken as 100. For 1929 the index given is the arithmetic mean for only the first ten months of the year.

The index-numbers for Rangoon were calculated by Mr. A. J. Page, I.C.S., using for each of six important imports and four important exports (including rice) the average price recorded in the Custom House during 12 months ending with March of the year for which the index-number is shown in the table. For each commodity every recorded price was weighted with the corresponding quantity ; the index is the geometric mean of the averages for the several commodities, and the year 1913-14 is the base.

Owing to the different methods of calculation the two sets of index-numbers are only comparable subject to some reservations. The Rangoon-index has the superiority of its local character ; the Calcutta-index has the superiority of its broad basis. In so far as money obtained by selling paddy is used to pay for goods bought during the year in which the paddy is grown, the Rangoon index appropriate for calculating the quotient is that given in the same line as the paddy-price in the statement. In so far as this money is used during the following year it would be more appropriate to divide each price by an index-number calculated for March to September following the season to which the paddy-price relates ; but the general character of the results would not be different.

† The *Indian Trade Journal's* numbers are not available for these years. The Director-General of Statistics in his Summary Table I gives numbers which average 92 (unweighted for 39 articles) and 98 (weighted for 100 articles) with 100 in 1914 as the base.

44. The worst period was between 1918 and 1922 when the marketing of rice was controlled by the Government of India in the interests of the Indian consumer. The Food-Stuffs Commissioner in India admitted that the price of Burma rice in India would have been at least Rs. 30 per ton higher if it had not been kept down by Government. Meanwhile Bengal extended its profitable jute cultivation and reduced the cultivation of rice which it could buy so cheaply from Burma, while Bombay profited by the control price of Burma rice to employ cheaply the labourers who helped to earn the exceptional profits of cotton manufacture sheltered from foreign competition. At the same time the price of cotton goods in Burma was very high. The cultivators of Lower Burma thus received for the benefit of other provinces of India an economic blow from which they have not yet recovered.

45. The low value of paddy in recent years, in comparison with the prices of manufactured goods, is one instance of the world-wide phenomenon of the low value of agricultural produce. But in Burma the result has been particularly serious because, owing partly to the circumstances described above, there is a lack of reserve to meet these conditions. In January to March 1930 the average quoted price of paddy has been 137, while there is no reason to suppose that the index-numbers (when calculated) will prove to have fallen on anything like the same scale since 1928 and 1929. Some part of the fall, however, seems to be due to Burma rice finding less favour in consuming markets than it used to do before 1914. The reasons for this are a matter of contention. Certainly the production of good rice in Indo-China and other countries has increased, and Burma has to meet more severe competition while unsettled conditions in China have reduced the demand; but some say the quality of Burma rice has fallen off. Some deny this and say that Burma in the past has been specialising more and more in paddy of the kinds required for export to the west, and now on account of increased production of rice in the west must sell to eastern countries for which those varieties are not suitable. Others again say that owing to exhaustion of the soil and less careful cultivation the quality of the paddy has fallen off, and the Government of India's control of the rice trade in 1918-22 is again blamed by some of these who say the lack of discrimination by the Government in buying rice discouraged the production of good uniform grain. Still others say that the difficulty is not concerned with the paddy; but the quality of the rice has fallen off because millers have shortsightedly reduced their milling standards to get a temporary profit.

46. It would not be proper for us to express an opinion on such a difficult and contentious subject. A committee appointed by Government for the single purpose of studying the whole problem of the rice-trade, including both production and sale, has been at work for some time; its report should be ready soon and must be awaited. Mean-

while any sound method to increase the competitive power of Burma rice in the world's markets must be useful. Some which have been suggested are improvement in the quality of the paddy, réduction of the number of types grown and adaptation of these to the existing markets, and the institution of proper standards of classification ; all these are receiving the attention of the Agricultural Department. Attention is also being given to the possibility of reducing the freights of paddy and rice. Some cultivators have begun to increase their production by fertilisers and improved methods of cultivation, following in both matters the lead of the Agricultural Department, and the railway has (April 1930) instituted favourable rates for the carriage of fertilisers. The provision of cheaper credit is still another means to increase the net profit of cultivation ; Dawsons Bank already grants loans at favourable rates for the purchase of fertilisers. The reduction by the Government of India of the export duty on rice in April 1930 will also be of some assistance.

47. **Land-tenure.**—In Lower Burma occupation and payment of land-revenue for twelve years confers (outside towns) a permanent heritable and transferable right of use and occupancy. The State retains the right to modify the land-revenue, and uses the right at intervals (usually of twenty years) when a detailed enquiry, called a settlement enquiry, is made into the costs and profits of agriculture. Every plot is then graded afresh in a set of assessment-classes and new rates of revenue are fixed by Government executively for each class. Large areas are held under grants (*potta*) which were issued up till about 1909 to persons opening up new land ; the title under these differs only slightly from the ordinary "landholder's title" described above, and in fact the difference is little known and generally ignored. In Upper Burma there are State land and non-State land. The latter is for practical purposes on the same footing as ordinary land in Lower Burma. In State land land-revenue is assessed in the same way, and in recent settlements the assessment-rates for State land and non-State land have been alike ; but the occupant is unable to obtain a permanent heritable and transferable right against the State by occupation of any duration or in any other way. There is a firm policy of non-disturbance of State tenants, but these are generally unable to obtain credit on their land. Except in the communal units mentioned below and a few other restricted areas specially reserved against extension of cultivation anybody can take up unoccupied land for cultivation as he pleases ; but non-agriculturists are discouraged in this by certain executive orders, while all in Lower Burma, whether agriculturists * or not, must occupy and pay revenue for twelve years before getting a landholder's

* It should be noted that in Burma a person is not regarded as an agriculturist in virtue of belonging to a particular tribe or caste, but in accordance with his actual occupation.

title, and in Upper Burma State land remains permanently State land. Some areas near Rangoon have been reserved against extension of cultivation otherwise than on lease because the land may be required for national purposes. Some other areas in Lower Burma have been closed to unauthorised extension of cultivation by being declared Government estates ; these are administered by Government as a landlord with the objects of controlling the development of important areas coming under cultivation, securing to the general tax-payer the rental value now appropriated by middlemen, and promoting by example the improvement of tenancy conditions in the neighbourhood of the estates. In some districts of Upper Burma some State land may only be worked by a person living within a certain region including the land. The size of the region varies from one village-tract to a group of them. This communal tenure has come down from early times and Government has declared its policy is to maintain it where it has not fallen into abeyance. In some places sales, mortgages and leases are all forbidden by the custom ; in some they are permitted if made to a resident of the communal unit ; in others again different restrictions apply.

48. Occupation by Non-agriculturists.—The declared policy of Government is that proposals likely to reduce the amount of agricultural land owned by its cultivators should be discouraged and all possible measures taken to retain possession of their land for cultivators who have it now. Nevertheless the marginal table shows that the area

Year.	Millions of acres occupied by		
	Agriculturists.	Others.	Total.
1913-14	14'58	2'47	17'05
1918-19	14'62	2'88	17'50
1923-24	14'68	3'33	18'01
1928-29	14'76	3'78	18'55

occupied* by non-agriculturists has increased in fifteen years by 1,300,000 acres and from one-seventh to one-fifth of the total area occupied. Legislation to deal with tenancy and land-alienation was the subject of much discussion from about 1875 until about 1913, and about a dozen bills were drafted

and seriously considered. The view which has so far prevailed is that such legislation would be ineffectual and the remedy required is an improved system of agricultural credit. In 1924 Mr. T. Couper, I.C.S., reporting upon the condition of agricultural tenants and labourers recommended amongst other things legislation to give the landlord a charge on the crop for rent, provided the rent is fair, and a right of continued tenancy in areas to be notified for the purpose because unfair rents are common in them. These proposals have not yet been adopted. Co-operative credit societies are one means of dealing with the problem ; and the Government estates mentioned in paragraph 47 are another. It

* The figures have been supplied by the office of the Commissioner of Settlements and Land Records. The different totals given in paragraph 35 for 1928-29 relate to areas *sown* and areas *matured*.

is occasionally forgotten that every large area of peasant proprietorship must include much land held by non-agriculturist widows and superannuated men and invalids and others who do not wish to cultivate. In an area in which colonisation is recent there must for this reason be for some time an increase in the area of land so held as the pioneer cultivators get old or die ; it must take a long time for a steady state to be reached, and in large regions brought under cultivation during the last twenty years such a state cannot have been reached yet. The Burmese Buddhist law of inheritance leads to sales and mortgages of land, and some of these must bring land to the hands of non-agriculturists if land is a profitable investment at all. The profits made by those who succeed in trade and industry are everywhere in the world larger than the profit of agriculture though more risky. Hence men who have made such profits in countries in which other lines of safe investment are not readily available and well-known, not only turn to agricultural land as an investment, but have a pull over agriculturists in competing for its purchase. They also take advantage of high rates of interest to lend to pioneers who try without capital of their own to bring new land under cultivation. A great deal of land has fallen into the hands of capitalists owing to the credit conditions for pioneers, and especially to the conjunction of expensive credit with liability to ill-health ; some of these capitalists have been pioneer-cultivators of a past generation. The problem of the transfer of land to non-agriculturists has not yet been completely disentangled and clearly stated. Improved conditions for agricultural credit, including improved provision for preserving the health of the pioneers, are clearly desirable. Another need is the provision of attractive investments other than agricultural land for the profits of traders and industrialists.

49. Size of Holdings.—The average area cultivated by one yoke of cattle and therefore requiring the services of one ploughman ranges in ordinary circumstances from six or seven acres in some parts to twenty-five acres in others. The area ordinarily cultivated by one farmer, whether owner or tenant, varies from ten to a hundred acres in different districts, employing from one to four or five yoke of cattle. Generally more yoke are employed in precisely those localities in which each yoke covers a larger area. Most commonly the area of a farm lies between ten and forty acres in Lower Burma, while in Upper Burma the area cultivated with paddy lies commonly between five and fifteen acres ; but there may be large areas of upland cultivation associated with these paddy holdings in Upper Burma. The surveys made for this committee in the Pyapôn and Insein districts and an irrigated part of the Mandalay district showed average farms of 21, 32 and 9 acres respectively, owner-cultivators having larger farms than tenants except in the Pyapôn survey in which the number of owners examined was small.

50. Fragmentation of Holdings.—The difficulties with respect to agricultural credit and progress which arise in some parts of India through the fragmentation of holdings are rare in Burma. Parts of the Prome district and of the Arakan division and a few areas in Upper Burma which have long been irrigated are probably the only important areas where they occur. The Burmese Buddhist law of inheritance requires division of a deceased person's property amongst all the members of his family ; but this does not generally lead to excessive fragmentation. If the land of the deceased is not extensive enough to afford a holding of proper size for each heir, the several heirs sometimes agree to take turns in cultivating it or to take shares in the rent obtained by letting it. Sometimes they sell the land and share the proceeds. A common plan, where there is only enough land for one cultivator, is that in which one heir takes over all the land and mortgages it to pay the other heirs their shares. Thus the inheritance law leads to sales and indebtedness, and often as a consequence to transfers to non-agriculturists ; but it does not lead to fragmentation. The weaker degree of sentimental attachment to land, considered below, combined with the lack of caste and with Burman versatility, explains the difference between Burma and India in this respect.

51. Land-records.—Most of the agricultural land is mapped on a scale of 16 inches to a mile, and urban land on four times that scale. The maps are revised every year and kept up to date very well. The systematic records relating to the occupation of land are also very full. But maps and records are both made for the purposes of assessment to land-revenue and not with the object of maintaining a register of titles. The current instructions to the Land Records Department are that every year for each holding there should be recorded the name of the person who appears primarily liable to pay the land-revenue as being in possession of the holding directly under the State, whether as owner or usufructuary mortgagee, either personally or through an agent or tenant who admits his subordinate relation. Arrangements are made for the name to be changed in accordance with registered deeds and with orders of the courts and in accordance with knowledge gained in local enquiries by the surveyor who keeps the record. There has been much controversy in the past as to the value of the records as a register of title, and many people still regard them as constituting such a register. But Government now regards them as purely fiscal records made for the purpose of collecting land-revenue. The courts, while refusing to regard them as a register of title, allow the entries such weight as seems right in each case.

52. Transfers of Land.—The Indian Registration Act, 1908, and the Transfer of Property Act, 1882, with all its amendments

(including those in Acts XX and XXI of 1929) are in force throughout the area of our enquiry except only a few small backward areas. All sales and mortgages of land (except mortgages by deposit of title-deeds) may be made only by registered deed, except sales and mortgages (other than simple mortgages) for less than Rs. 100 made by oral agreement without any deed of sale or mortgage. Apart from this there are no legal impediments to the mortgage of any land in Lower Burma or of non-State land in Upper Burma. State land also (other than communal land) may in fact be mortgaged, but the mortgagee is liable to be evicted if he takes over the land and is not an agriculturist by actual occupation. The restrictions upon the transfer of communal land have already been mentioned in paragraph 47.

53. Sentimental Attachment to Land.—Mere force of habit, the inconveniences of changing, the advantages of cultivating a holding in which all the conditions are familiar, and bonds of personal acquaintance with neighbours—these are sufficient in Burma, as in every country, to keep most owner-cultivators fixed on a particular holding. But still the chief difference in a Burman mind between one field and another is found in its productive capacity and the conditions of its cultivation, and not in a strong sentimental regard for its cultivation by father and grandfather. The lack of sentimental attachment to land in Lower Burma is due in part to the fact that so much land is of comparatively recent colonisation, and the attitude of colonists and their descendants has been communicated to the minority of others. But early records from before the great colonisation movement show much the same attitude, and the ultimate reason appears to be that there was always plenty of unoccupied land which could be brought under cultivation easily. During the colonisation; too, many who had made a holding sold it and went on to cut fresh jungle, becoming in fact land-developers rather than cultivators, and looking for capital appreciation for their profit; there were always people of fainter heart or larger fortune or less robust health ready to buy, so that transfers of land were of frequent occurrence. But really the industrialisation of paddy cultivation is sufficient explanation. Land on which a peasant cultivator does all the work himself or by his family naturally becomes endeared to him; but the same result is not to be expected when he employs day-labourers for much of the work. There are of course numerous landowners who have a strong attachment to their particular land. Most Karens are included. But our description is true of the majority.

54. In Upper Burma there was in the past a much firmer attachment to the family inheritance; perhaps this was due in part to economic considerations arising out of an inferior water-supply. Children retained part ownership of land when it was not divided amongst them, and there sometimes came to be a large number of joint owners of one

piece of land. In some cases these took cash from the other owners in lieu of their share, but in other cases this was not done. Even twenty years ago it was difficult to buy land in most parts because of the sentimental attachment owners had for their particular holdings ; in those days a would-be purchaser obtained instead a usufructuary mortgage. Now Upper Burmans are commonly quite willing to sell their land if a suitable price is offered. The change seems to have begun in the practice of selling land to go off to join in colonising Lower Burma, and to have developed through the spread of the knowledge that vacant land was available in Lower Burma, and by the influence of thought in Lower Burma.

55. Areas Sold.—The accompanying table * shows for four years (at five yearly intervals) the number of millions of acres of

Year.	Lower Burma.			Upper Burma.		
	Occu- pied.	Sold.	Per 1000.	Occu- pied.	Sold.	Per 1000.
1913-14 ...	9.0	0.51	57	8.0	0.05	7
1918-19 ...	9.5	0.43	45	8.0	0.05	6
1923-24 ...	10.1	0.45	45	7.9	0.05	7
1928-29 ...	10.7	0.42	40	7.9	0.08	11

land occupied and sold in Lower and Upper Burma respectively and the proportion sold in in each year per 1000 acres occupied. The large proportion sold each year in Lower

Burma illustrates the statement made earlier in this chapter that land is readily sold without strong sentimental attachment.

56. Land Values.—Land values vary too widely for any short summary to be given. Evidence from nearly every district is given as the reply to Article 54 of our questionnaire. In many parts the best agricultural land, away from exceptional conditions such as those due to urban extension, has a value between Rs. 180 and Rs. 250 per acre, while second-quality land commonly goes down to Rs. 100. But these values may only be regarded as showing roughly the orders of magnitude of the general prices : there is much land worth far less than Rs. 100 per acre and some worth practically nothing ; there is a considerable amount worth over Rs. 250. The value of paddy-land shows signs of falling at the moment because of the contraction of credit and the fall in the price of paddy ; this fall has reduced the earning capacity of the land as an investment and also leads to sales by heavily indebted owners to their creditors.

* The figures in columns 2, 3, 5, 6 were supplied by the office of the Commissioner of Settlements and Land Records.

57. **Area let.**—The statement* hereby shows for four years (at five-yearly intervals) the number of millions of acres let in Upper and Lower Burma respectively. Unfortunately columns 4 to 7 for the two earlier years cannot be filled. The percentages of the total occupied

Year, (1)	Area occupied. (2)	Area let.				
		Fixed com- petitive rent. (3)	Share or partner- ship. (4)	Privi- ledged rent. (5)	Total. (7)	Per cent of occu- pled (8)
<i>Upper Burma.</i>						
1913-14 ...	8.0	0.10	} Figures not available			
1918-19 ...	8.0	0.10				
1923-24 ...	7.9	0.20		1.32	1.85	23
1928-29 ...	7.9	0.32		1.34	2.01	25
<i>Lower Burma.</i>						
1913-14 ...	9.0	3.16	} Figures not available			
1918-19 ...	9.5	3.37				
1923-24 ...	10.1	3.77		0.05	4.2	42
1928-29 ...	10.7	4.48		0.01	4.7	44

area in Lower Burma let at fixed rents† determined by competition were 34, 35, 38 and 42 respectively in the four years in order. In some fairly large tracts as much as 60 to 70 per cent. is so let ;

there are five whole districts exceeding 40 per cent. and two exceeding 50.

58. Except on land with dry cultivation in Upper Burma, leases are generally from year to year and the rent is usually paid in kind after the harvest and at the threshing floor. Cash rents are exceptional, and if paid are generally paid before cultivation begins. The owner usually pays the land revenue. Rents vary from 15 to 55 per cent. of the total outturn and are commonly about 35 to 40 per cent, but of course there is wide variation. Owing to increase of population, and to the limited amount of land available now for profitable extension of cultivation by present methods, and to the amount of capital usually required to start cultivation in new land, there is in most parts of Lower Burma competition amongst tenants for land ; consequently landlords have the stronger position. Reckoning the net rent as the balance left with the landlord after paying the land-revenue, the selling value of the land in the deltaic districts in which most leased land is found varies from about six or seven up to nine or ten times the net rent ; but in other parts this ratio would commonly be higher and may reach fifteen or sixteen. It must be remembered moreover that not all the rent is to be reckoned as the interest on the investment ; part of it is the return for watching the tenant to ensure proper cultivation and payment of rent. Rents of paddy-land (measured in produce) have not fallen in the last few years as sale-values have ; this, however, is to be expected as the fall of sale-values is mainly due to the fall in the price of paddy.

* All figures in columns 2 to 6 were supplied by the office of the Commissioners of Settlement and Land Records.

† Fixed rent means in Burma a rent agreed upon at the beginning of each season. In many parts landlords occasionally make a reduction of such a rent at the time of payment in consideration of a bad harvest ; see paragraph 125.

59. In Article 61 of our questionnaire we made an enquiry into the economic condition of tenants. We asked every district to report what proportion of tenants have no permanent debts but have enough cattle to plough their land and are able, after harvest in an average year, to pay off all the loans and expenses incurred in producing their crops and to put aside sufficient rice to support themselves during the next cultivating season. The replies received give only general impressions without a statistical basis, but on an average they may be expected to give a fair idea of the conditions ; they suggest that about one tenant in four reaches the economic standard described. A further question generally received the reply that such a tenant might reasonably expect to maintain himself at that standard if he were fortunate enough to keep good health, and had the average skill and lived at the general level. Many tenants are better off than owners whose lands are heavily mortgaged so that they pay in interest as much as tenants pay in rent. But there is social status attached to ownership, and the competition amongst tenants is so keen in some parts that an owner, even if indebted, has a real advantage in the certainty of having land to cultivate. A tenant, whose landlord lets the land to somebody else, may have difficulty in finding good employment as a labourer if he is not young, and certainly finds it distasteful to be separated from his family and submit to the control of his employer ; he loses less as a tenant than as a labourer by an odd day or two of bad health and he can profit by the labour of his wife and family.

60. The replies from district committees show that the proportion of tenants who have little or no capital varies largely ; some districts say they amount to one-third of the whole. These are commonly known as "one pot one mat" men, the name describing the paucity of household goods which they possess. Such men must borrow for everything they need throughout the year and use all their harvest to repay ; even in a good harvest they have nothing left in hand because there are arrears of the previous year to make good. Such people are hardly distinguished from labourers ; indeed there are tracts near Rangoon where a written contract is made with such tenants and describes them as working for hire (expressed in terms of paddy) although there is an understanding that if all goes well they will be treated as tenants paying an agreed rent. Owing to the competition for tenancies there is much shifting of tenants ; sometimes the tenant shifts because another person has offered a higher rent for the land, sometimes because he thinks some other holding offers him a chance of more profit. Few tenants or labourers succeed in becoming owners ; it is hardly possible to pay off the debt incurred for buying land from the profit of cultivating that land unless the debt is much less than the value of the land. This is because the price of land has been enhanced by the expectation of capital appreciation inspired by the experience of thirty years before 1914 and by the

deception of the increased nominal values since that year corresponding to a general rise in prices. The custom of paying rent in kind, though primitive, has much to recommend it because it gives the risk of variation in the produce-market to the landlords, who (having land as security for loans) are generally better able to bear it than the tenants ; on the whole the tenant gets greater benefit from this protection in years of low price than he misses in years of high price. The change to a custom of fixing rents in cash is possibly inevitable, and the difficulties which occur in some places in the adulteration and measurement of rent-paddy are an influence towards bringing it about ; but the new difficulties of the more aleatory condition of the tenant with cash rents suggest an endeavour to avoid this change.

61. Progress of Burma.—The development of the paddy industry in Burma has been described earlier in this chapter and is one aspect of the development which has gone on in many directions. To give some idea of the magnitude of this development we give in the following table some figures quoted from a speech recently made by Sir Charles Innes, the present Governor of Burma, in which he compared Burma of 1928 with Burma of 1901. Some of the figures are only rough approximations, but they are near enough to give a fair idea of the matter. In considering the figures for education the custom of sending boys to the Buddhist monasteries for education must be remembered ; the figures given take no account of these. Sir Charles Innes also stated that in the period 1901 to 1928 the death-rate from small-pox in Burma had been halved. Unfortunately the general statistics of deaths in rural parts are not even yet sufficiently reliable to give the general death-rate.

Description.	1901.	1928.	Description.	1901.	1928.
<i>Factories.</i>			<i>Railways—concl.</i>		
Number of factories ...	172	1,073	Millions of tons of goods carried	1.5	5.7
Number of employees (thousands)	25	102	<i>Post Office.</i>		
<i>Joint-stock Companies.</i>			Postal articles in the year (millions)	20	62
Number registered in Burma	25	295	Telegrams sent (millions)	0.7	2.2
Total paid-up capital (millions of rupees)	0.6	260	Money-orders issued (value in millions of rupees)	30	110
<i>Sea-borne Trade.</i>			<i>Education.</i>		
Value (millions of rupees)	400	1,100	Number of schools, etc.	18,284	25,572
<i>Roads.</i>			Number of pupils (thousands)	316	750
Total length in miles ...	6,344	9,288	<i>Hospitals and Dispensaries.</i>		
<i>Railways.</i>			Number of institutions ...	119	303
Miles open to traffic ...	1,124	1,903	Number of patients (millions)	0.9	2.4
Passengers carried (millions)	11.6	37.1			

62. Communications.—In spite of the growth of roads, railways and post-office business between 1901 and 1928 shown above Burma is still notoriously lacking in means of communication. Indeed this deficiency is one of the considerations which stimulates the desire of a large number of people to have Burma separated politically from India, so that there may be greater freedom to use the resources of the country to develop communications. In the delta communications are by water and consequently slower than they would need to be in an area served by railways. Not only do the journeys last longer ; because of tides they must often be performed only at certain times. This physical disability cannot be cured at present, as travelling by air is not yet adapted to comparatively short distances. But in the rest of the well-populated part of the country, where there is not this physical disability, the railway which has grown so much since 1901 is only of metre-gauge and is accordingly restricted as to speed. During the last seven or eight years there has been a great development of motor omnibuses all over the country (except in the delta) so that wherever there is a metalled road, and even on many unmetalled roads, omnibuses are found plying at low fares.

63. Some deficiency in Burma's communications appears in the following statistics taken from the annual report of the postal department for 1927-28 :—

	Square Miles.		Thousands of population.			
	Burma.	India.	All classes.		Literate.	
			Burma.	India.	Burma.	India.
One post-office serves ...	452	78	25	14	7·0	1·0
One letter-box serves ...	63	21	4	4	1·0	0·3

These averages for Burma are increased by the sparseness of population in large areas away from the main river-valleys ; but those for all India must also be affected to a considerable extent in the same way. It is not possible for the very large differences in five of the six comparisons given to be explained in this way. Nor are these differences due to a failure on the part of the postal department ; every year it opens a large number of experimental post-offices ; but most of them, after prolonged trial, prove to be unlikely to become self-supporting and have to be closed. A Postmaster-General (Burma), who went on leave in 1930 and had had much experience of both India and Burma, said the trouble was that the people in Burma do not use the post-office so much as the people in India. We have accordingly sought in the postal reports the

statistics given in the margin hereby to compare the number of postal articles (excluding money-orders) in one year 1927-28, per head of

Postal articles per head in 1927-28.		
Per head of :—	Burma.	India.
Total population ...	4.7	4.3
Literate population	16.9	60.7

total population and of literate population in Burma with the corresponding number for all India and Burma taken together.

Similar statistics for earlier years

taken as samples were found to bear the same relationships to one another. It thus appears probable that Burma does use the post-offices as much in proportion to its total population as India does, although, strictly speaking, the statistics should be taken separately for towns and for ordinary rural areas (omitting outlying tracts) for the comparison. But the statistics for the literate population show an entirely different relationship ; the number for India exceeds three and half times that for Burma. We think this may be due in part to a different standard of literacy being used in the censuses. In Burma a certain degree of capacity to read and write is widespread, nearly every boy and many girls acquiring it. But possibly in India, where literacy is less widespread, it is more developed where it is found. We can only hazard this explanation and leave the figures for any reader who later on, may have further means of studying them. It is noticeable that the rates of increase of India and Burma appear to be the same for the number of postal packets per head of total population ; the increase was 30 per cent. in each case from 1913-14 to 1927-28. For the number per head of literate population the increase in Burma in the same period was 3 per cent. while that in India was 7 per cent. ; thus this number is not only smaller for Burma than for India but is growing less rapidly both absolutely and proportionately.

64. Credit Expansion.—An interesting commentary upon credit expansion in Burma, based upon some notes by Mr. R. M. MacDougall, I.C.S., and published in the Report of the Registration Department for 1928, was as follows :—

The basis of credit expansion in rural Burma is mortgages ; and no sales of land, practically, take place until the money-lender refuses the owner further loan accommodation. The sale then takes place for the sum of previous loans, with interest, *plus* an agreed cash consideration. This, of course, inflates the value of the land, although the seller rarely handles more than a small proportion of it in actual money. Thus, an increase in the number and value of sales, without a corresponding increase in the number and value of mortgages, indicates contraction of credit. Loans are, on the whole, made in the latter half of the calendar year while recoveries are made after the harvest, in January. Thus, by comparing the mortgages in one year with the sales and mortgages in the following year, it is possible to obtain some indication of the course of agricultural economics.

the Burma Mines Corporation carries on its operations. Gold is imported from China on a considerable scale for use in gilding pagodas. Formerly gold leaf was imported ; but, as that is subject to a 30 per cent duty from which bullion is free, bullion is now imported through Chinese merchants and beaten out into gold leaf at Mandalay and some other places. South African gold also is sent over from Bombay by post.

67. Newness of Burma. — We conclude this short survey of the country by calling attention to the shortness of the time that has elapsed since Burma had only a primitive economy. Fifty years ago most of the delta, whose paddy crops is essential to the chief export trade of the country and to one of the country's most important industries, was covered with jungle, while Upper Burma was still governed by a Burmese king dominated by his chief queen and had a very primitive legal and economic structure. A vivid realisation of the change that has taken place in this period, and especially of its rapidity, is essential to a due appreciation of the present conditions with respect to banking and credit.

undertake any other kind of banking business apart from lending. Most of them are lenders on a small scale. Some of them, including some of the larger, borrow from Chettians and become as it were retailers of money to agriculturists and traders. Similarly Indian and Chinese lenders borrow from the Imperial Bank and from Indian European and American banks. But to a large extent it is true that each section of the organisation engages in a different class of business and remains independent in its own sphere. Moreover the contact of the native people of Burma with all these classes is almost limited to taking loans from them ; very little Burmese capital is used by any of them except the Burmese moneylenders who use their own. This, like the unduly small share taken by Burmans in the trade and industry of their country, is due largely to the rapid agricultural development which has absorbed the energies of the race for the last fifty years. It is to be noted, however, that in recent years the amount of deposits by Burmans on current account in Dawsons Bank has increased more rapidly than deposits by other races and shows signs of continuing to do so. The co-operative banks too, in recent years, have succeeded in getting more deposits from the people of the country ; at the end of 1929 five-eighths of all deposits in co-operative banks belonged to Burmans and Karens.

70. Banks organised on Western Lines.—These banks in Burma may be divided conveniently into (a) the Imperial Bank of India, (b) nine exchange-banks, (c) the Oversea-Chinese Bank, (d) seven other banks organised as banking companies, (e) one private bank, (f) two undertakings carrying on banking as a subsidiary business and (g) co-operative banks and credit societies. There are no banks on western lines owned by partnerships or individual bankers whose banking business is not combined with some other business. There are no banks on western lines which are owned by Burmese or other indigenous individuals, or by partnerships of such persons, or by companies registered, owned and managed by Burmans. Omitting the co-operative banks there are altogether 21 banks working on western lines in Burma. Of these six have only one office, one has nine offices, all in Burma, three have their head-offices in India (outside Burma) ; 16 have their sole Burma offices in Rangoon, one has its principal Burma office in Rangoon and five other Burma offices, two have their principal Burma office in Rangoon and one other office each in Burma, one has its principal office outside Rangoon and a branch in Rangoon besides seven other branches, one has its sole office outside Rangoon and is the only one with no office in Rangoon. The total number in Burma of offices of banks working on western lines is thus 36 of which 20 are in Rangoon. These numbers omit the 35 branches in Burma of the Bank of Chettinad, which has been regarded

as belonging to the class of financiers working largely upon lines other than those of western banking and will be mentioned accordingly in Chapter XIII B*. They omit also the business of U Rai Gyaw Thu & Co., Ltd. at Akyab, which lends money and is expected to develop into a banking business, but at present receives deposits from shareholders only. Some of these are deposits on current account, and cheque-books are issued to the depositors. The company is just now proposing to accept deposits on current account from the public up to a limit of Rs. 300,000 ; but it hardly comes yet within the class of banks concerned in this chapter. The numbers given omit also the banking business of the American Baptist Mission Treasury and of Gillanders Arbuthnot & Co. The American Baptist Mission credits the salaries of its missionaries and other employees to accounts kept in their names in Rangoon, and pays out from these accounts in accordance with cheques ; most banks charge commission for collecting the value of such cheques paid in to them. Gillanders Arbuthnot and Company, a firm of importers, conducts a small banking business in Rangoon by accepting deposits from a limited and small number of personal friends ; it neither accepts deposits from the general public nor engages in general banking business. One business is known to us which is carried on under the description of " Merchants and Bankers " and finances importers ; it has one customer who is allowed to draw by cheques. Probably there are a number of businesses of this character ; we have not enquired for others as we do not regard this as banking. Other businesses advertise themselves in the newspapers as banks ; we have found that some are merely moneylending businesses. We have not enquired into all ; but we have reasonable grounds to believe that, apart from the co-operative banks, all the businesses which would generally be recognised as banks are included in our survey in this chapter.

71. The geographical distribution of the 36 offices of banks working on western lines is shown by the following list of towns at which such offices exist :—

Pegu Division.—Rangoon.

Irrawaddy Division.—Pyapôn, Bogale, Kyaiklat, Declaye, Maubin, Kangyi, Moulmeingyun, Bassein.

Arakan Division.—Akyab.

Tenasserim Division.—Moulmein, Tavoy.

Mandalay Division.—Mandalay, Maymyo, Myingyan.

Of these only four offices in the Mandalay Division belong to Upper Burma ; in all the rest of Upper Burma as well as the Federated Shan States there are no offices of banks working on western lines. Each town shown above has only one office, except Rangoon which has 20 and Bassein and Mandalay which have 2 each. All the eight towns mentioned for the Irrawaddy Division have an office of Dawsons

* See paragraph 461 ; see also the footnote to paragraph 86.

Bank, which has its head office at Pyapôn and another branch in Rangoon. Bassein has a branch of the Imperial Bank as well as a branch of Dawsons Bank ; Moulmein and Myingyan also have offices of the Imperial Bank while Mandalay has branches of the Imperial Bank and of the National Bank of India. Tavoy has a branch of the Chartered Bank. Maymyo has the sole office of the Bank of Upper Burma.

72. The Imperial Bank of India.—This bank was formed in

Imperial Bank of India.	
Branches in Burma.	Date of opening.
1. Rangoon ...	2nd December 1861.
2. Moulmein ...	19th October 1865.
3. Akyab ...	24th December 1866.
4. Mandalay ...	1st June 1921.
5. Bassein ...	1st October 1921.
6. Myingyan ...	4th October 1924.

1921 from the three presidency banks of Bengal, Bombay and Madras under the Imperial Bank of India Act, 1920. It has in Burma six branches whose locations and dates of opening are shown in the margin hereby. The three offices at the three ports of Rangoon, Moulmein and Akyab were opened by 1866, but no others were opened until fifty-four years

had passed. The Mandalay Bassein and Myingyan branches were then opened in accordance with the provisions of section 10 (2) (b) of the Imperial Bank of India Act, which required the opening of a hundred new branches (in India and Burma together) within five years. The Imperial Bank of India acts as the Government's banker and the custodian of all public funds (paying no interest for them); it manages the public debt for the Government, and it carries on the treasury work at all those places where it has branches. It manages the clearing in Rangoon as is described later in this chapter. The exchange and the other banks treat it as a central bank to the extent of keeping their reserve balances with it and of looking to it for advances when other ordinary sources cannot supply them. Its principal deposits are on current account although it follows the central bank tradition in paying no interest on these. It accepts also savings-bank deposits and fixed deposits.* It lends to financiers working otherwise than on western lines as well as to other persons. It carries on all ordinary banking business subject to the restrictions imposed by the Imperial Bank of India Act. The chief of these restrictions are that it may not (a) make any loan or advance for a longer period than six months nor (apart from an exceptional case) on the original security of immovable property; (b) make

* Fixed deposits in banks in Burma managed on western lines are deposits for an agreed period, not (as in Great Britain) deposits subject to an agreed period of notice of withdrawal.

discounts or advances on personal security without the several responsibilities of at least two persons or firms unconnected with each other in general partnership ; (c) make discounts or advances exceeding two million rupees to any individual or partnership except on certain specified securities ; (d) grant unsecured overdrafts in excess of a hundred thousand rupees ; (e) except for a narrow field of business in London, extend its operations beyond India and Ceylon or enter into any foreign exchange business. Government also has the right of audit and powers to exercise control in certain ways, appoints four governors on the central board of the bank, and appoints the two managing governors after consideration of the recommendations of the central board.

73. The Imperial Bank of India has for some years been severely criticised in some circles. It is said to give less facilities to Indian than to other merchants and bankers ; this is ascribed to the strength of the European part of its management, and claims are made on this score and on the ground of economy that Indians should replace Europeans in the service of the bank, at least to a large extent. It is further said that, because the European agents and managers of the bank's branches lack social and political contacts with the people of their localities, they are unable to invest the deposits in the rural parts of the country, where consequently there is a lack of money for agriculture and local trade and industry. The same charges have been made against the exchange-banks. The Imperial Bank, in answer to the general charge of discrimination against Indians, said in its evidence before the Royal Commission upon Currency and Finance (1926)* that it gave more loans to Indians than to Europeans although it received more deposits from Europeans than from Indians. It must be remembered too that Indian applicants for assistance are often unable to exhibit their financial position in a form which will justify a banker in giving them credit. We confess that we find it difficult to believe that the European direction and management of either the Imperial Bank or any exchange-bank (or for that matter the direction and management of *any* bank which considers itself responsible to shareholders for its profits, whether in the hands of Europeans or other races) would sacrifice on sentimental grounds business which is sound and profitable or would neglect opportunities to cultivate further business of that character for which it had funds. There is in Burma one bank, European in direction and management, which does business as a lender almost exclusively with the indigenous races. We do not believe any advantage would accrue from any attempt to coerce the banks to use their funds in a particular way. The Burma-Indian Chamber of Commerce has, however, repeated

* Report of the Commission, Appendix 48 and answer to questions 9750-3. In this passage *Indian* includes natives of Burma.

the complaint in its evidence before us, and has written as follows with respect to all the banks under European management (including the exchange-banks) :—

(We) are prepared to admit that in certain cases the credit of the merchants does not come up to the required standard. But to a large extent this differential treatment is due to want of contact between European bank managers and Indian merchants and to a general attitude of indifference on the part of European managed banks towards Indian clientele. Thus considerations of nationality influence the policy of European banks to an undesirably large extent. There are a few individual cases of Indian firms in a large way of business who are treated by exchange-banks quite as liberally as European houses ; but these are exceptions.

This sweeping statement that considerations of nationality influence the policy of European managed banks to an undesirably large extent would be strongly challenged by the banks against which it is made. So far as we have been able to go into the matter we have formed the opinion that the attitude of the banks is determined not by racial considerations but entirely by considerations of credit-worthiness. We consider that the further discussion of this question falls outside our enquiry, and accordingly leave it for the Central Banking Enquiry Committee with the reminder that in Burma a bank under Indian management would not be regarded by the majority of the non-Indian population as less foreign than a bank under European management, although the Indian population includes a large part of the commercial classes in the large towns and especially in the ports.

74. The Imperial Bank of India has also been criticised in India on the ground that it competes unfairly with other banks through having the free use of Government balances. The bank, however, regards submission to the restrictions and control imposed upon it by the Imperial Bank of India Act and the work it does for Government without remuneration as a sufficient payment for its free use of those balances and for the other privileges and advantages (*e.g.*, prestige and power to attract customers) it gets as the Government's banker. Moreover, it claims, the Government balances, being spread over a large number of branches and being sometimes small in their total, are not so useful as is sometimes suggested. However the case may be in India we have to observe that in Burma only two banks have branches in places outside Rangoon where the Imperial Bank also has a branch,* and we believe neither of them complains of unfair competition in those places.

75. Some further criticism of the Imperial Bank of India by Marwaris will be found in paragraph 339 and some by Chettiars in paragraphs 335 and 551.

* National Bank of India at Mandalay and Dawsons Bank at Bassein.

76. The Exchange-Banks.—The term *exchange-banks* is

commonly used in India to include a number of banks which make a speciality of financing sea-borne trade, both import and export, and have practically all this business in their hands. There are eighteen of such banks in India ; nine of them which have branches in Burma are shown in the list hereby. The Burma branches finance trade with India as well as trade with other countries, but the latter is much the more important for nearly all the banks. The first five of the list do a large part of their

Exchange Banks in Burma.	
Name.	Headquarters.
1. Allahabad Bank ...	Calcutta.
2. Chartered Bank of India, Australia and China.	London.
3. Lloyd's Bank ...	London.
4. Mercantile Bank of India.	London.
5. National Bank of India.	London.
6. Hongkong and Shanghai Banking Corporation.	Hongkong.
7. National City Bank of New York.	New York.
8. Nederlandsche Handel Maatschappij.	Amsterdam.
9. Yokohama Specie Bank.	Yokohama.

total business in India and Burma together ; for the last four the business in India and Burma is believed to be only a minor part of the whole. The Chartered Bank, which is the largest and oldest of the exchange-banks and began business in India (but not in Burma) in 1853, has its principal Burma office at Rangoon and another office at Tavoy ; it also controls the Peninsular and Oriental Banking Corporation to which the Allahabad Bank is affiliated ; but this last bank is worked independently of the Chartered Bank in Rangoon. The National Bank of India has its principal Burma office in Rangoon and a branch at Mandalay. All the other seven have their sole Burma office in Rangoon. The managers in Rangoon of all the nine exchange-banks form the Rangoon Exchange Banks Association, which represents them as a body when they think proper, and affords facilities for discussion of matters of special interest to exchange-banks and for the preservation of uniformity of practice amongst them. The exchange-banks in Burma receive deposits from the public and pay interest on them ; they generally pay half-yearly at 2 per cent. per annum on current accounts (subject to a minimum of Rs. 5 for a half-year), while for fixed deposits they generally pay rather higher interest than the Imperial Bank. Besides financing sea-borne trade, they make remittances to India and other countries for private persons, discount hundis and other internal bills of exchange, make advances to exporters on stocks, make advances to various kinds of financiers working otherwise than on western lines, and do all ordinary banking business as it is understood in Europe and

America. All the exchange-banks are members of the Rangoon clearing, and have current accounts with the Imperial Bank of India in Rangoon for use in that connection and for the keeping of their spare funds.

77. In India complaints have been made as in the case of the Imperial Bank of India, that the exchange-banks favour non-Indians in granting facilities ; the complaint has already been discussed to some extent in paragraph 73. To this may be added that a number of people think the exchange-banks are too numerous for the amount of business to be done and compete too fiercely with each other ; such competition is not likely to be accompanied by choice of business on sentimental grounds. Their advances are chiefly to Europeans, because foreign trade is largely managed by Europeans. There have been complaints in India that the exchange-banks compete with Indian banks in collecting deposits, and hold about one-third of all the bank-deposits of the country although the foreign trade of India is only one-sixteenth of the internal trade. But their share of the deposits has been falling relatively (though increasing absolutely) for the last few years, and in any case must depend upon the relative degrees of confidence the various kinds of banks inspire ; people are free to deposit where they will.

78. We tried to obtain statistics of the business done in Burma by the exchange-banks collectively, and for this purpose devised a procedure which would have enabled our chairman to receive the returns from the several banks without any indication of the bank to which any particular return belonged ; he was then to compile all the returns and destroy them, preserving and publishing only the totals. Unfortunately some of the banks found themselves unable to disclose the particulars required ; so the project had to be abandoned.

79. **The Oversea-Chinese Bank.**—This is a Chinese company with a capital and reserve of nine to ten million rupees, registered at Singapore and by its articles of association limiting transfer of its shares to Chinese unless the sanction of the directors is obtained. (No such sanction has yet been given.) It has branches at Amoy, Djambi (Sumatra), Kelantan, Kuala Lumpur, Malacca and Penang as well as at Rangoon. It does no business with India. Its depositors and borrowers are chiefly Chinese, and it carries on exchange business with Hongkong, Amoy and the Straits ; it is in fact an exchange-bank for Rangoon and those places, although it is not a member of the Rangoon Exchange Banks Association and is never included when the term exchange-bank is used. It is not a member of the clearing ; but it keeps current accounts with eight large banks in Rangoon, so that in exchange for a cheque drawn upon itself and paid into any one of those it can give its own cheque drawn upon the same bank.

80. **Other Banking Companies.**—Apart from the Imperial Bank of India and the exchange-banks and the Oversea-Chinese Bank, there are seven banks organised as banking companies. These include two Indian banks with their head offices in India, namely the small *Bengal Central Bank* [361 thousands]* and the *Central Bank of India* [28 millions]*; each of these has its sole Burma branch in Rangoon. The *Burma Loan Bank* [15 thousands], is a small Indian bank registered in Rangoon with about 60 savings accounts, 30 current accounts and fixed deposits from 12 persons, the clientele being shopkeepers and professional men, almost entirely Indians. An English bank, *T. Cook and Sons (Bankers)*, has a Rangoon branch doing agency business. The *Chinese Merited Bank* [100 thousands]* is a small local Chinese bank registered in Rangoon under the Indian Companies Act, serving Chinese and Burmese merchants, and doing practically no business outside Rangoon. The two remaining banks are the only ones of this class which have offices outside Rangoon. The *Bank of Upper Burma* [200 thousands]* has its sole office at Maymyo, the Mercantile Bank acting as its correspondent in Rangoon; the other is *Dawsons Bank* which is described in the next paragraph.

81. *Dawsons Bank, Ltd.* (1·6 millions)* has developed out of an agricultural loan company and is the only bank in Burma organised on western lines which works as an agricultural bank. It was described at page 422 of the Royal Agricultural Commission's report as the only joint-stock bank in India (so far as came to the notice of the Commission) providing "fixed capital" for agriculture. This, however, is a mis-description; it does not lend for an indefinitely long period as is done by industrial banks in Germany, and therefore does not supply fixed capital in the proper sense of that term. The bank has been built up by Mr. Lawrence Dawson, who is a member of this committee,† with the aid of his brother who died a few years ago. It is now a public company registered in Rangoon, having a paid-up capital of 7½ lakhs; it has 90 lakhs of current and fixed deposits and 70 lakhs of advances of which 35 to 40 per cent. are given, as crop-loans. Its head office is at Pyapôn in the delta, about eight hours from Rangoon by ordinary public steamers and three to four hours by fast motor-launch. It has eight branches, one at Rangoon and one at each of the banking centres in the Irrawaddy Division shown in paragraph 71. The bank works upon conservative lines with strict adherence to banking principles as they apply to its environment. Current and savings-bank accounts are accepted at all the offices except one; but by far the greater part of the resources comes from the long-term deposits in which this bank specializes. The bank performs a

* Figures in brackets in this paragraph indicate the total paid-up capital and disclosed reserves and undistributed profit of the bank at the end of 1928.

† That is, the Burma Provincial Banking Enquiry Committee.

useful function in collecting bills drawn on traders in the delta by merchant houses and banks in Rangoon, and conducts with the aid of its nine offices an important remittance business. Advances are made chiefly at the head office and rural branches, and the principal advances are made to owners of considerable estates, some of whom have a paddy-mill or carry on a large trade in paddy. The Rangoon branch undertakes all kinds of banking business, but is necessarily limited by the funds available : its principal function is the collection of deposits for lending in rural areas. Mr. Gubbay in his lecture on *Indigenous Indian Banking* to the Royal Society of Arts on 11th November 1927 remarked that the Allahabad Bank was the only instance of the entry of a purely mofussil bank into the commercial banking of a presidency town, and that in all other cases where branch banking has been part of the policy followed, the development has been outwards from the presidency town. Dawsons Bank is, however, a second instance of a bank developing first in the mofussil and afterwards entering the commercial business of the capital city. Mr. Gubbay pointed out that as a rule the branches act as feeders, the funds attracted by them being sent to the offices in the chief commercial cities ; but in Dawsons Bank the office in the commercial centre acts as a feeder for the branches.

82. Only one bank of this class, namely the Central Bank of India, is a member of the clearing. T. Cook and Sons (Bankers) and Dawsons Bank clear through other banks which are members. The remaining banks of the class pay in to their accounts with clearing banks cheques collected by them, while for cheques drawn upon them and presented by other banks they either pay over the counter or give in exchange a cheque upon a clearing bank.

83. Dawsons Bank, the Bank of Upper Burma and the Burma Loan Bank are the only banks organised as banking companies that are registered in Burma. The first is under mixed European and Burman direction and European management ; the second is under Indian direction but has a European manager ; the last has Indian direction and management and in fact is entirely an Indian concern. There are thus no banking companies working in Burma which are registered in Burma and are owned and managed by indigenous people.

84. **Private Banks.**—There is one private bank, Messrs. A. Scott & Co., which belongs to a partnership and has long been established in Rangoon. Its banking business is of the agency class. In addition to banking Messrs. A. Scott & Co. are the proprietors of a mineral-water factory and hold various agencies for machinery, wines, spirits and provisions ; they also manufacture and export Burma cheroots. The bank is not a member of the clearing but clears through the Chartered Bank.

85. **Other Banks.**—Besides the co-operative banks which are treated in Chapter XII there are two other banks, one managed by a private company and one by a public company. The private company (Balthazar and Son, Ltd.) carries on a general banking business alongside its main business which is that of auctioneer, estate-agent, import agent and investment agent; besides accepting fixed deposits and deposits on current account it grants overdrafts and loans and sells drafts on London. The public company (Barnett Bros., Ltd.), working as grocers and provision merchants, carries on a small subsidiary banking business to the extent of accepting fixed deposits and deposits on current account; but it does not make advances. Neither of these two banks has access to the clearing; in exchange for cheques drawn upon them and presented by other banks they give a cheque upon the presenting bank.

86. **Clearing of Cheques.**—The only place in Burma at which cheques are cleared is Rangoon, where the clearing is managed by the Imperial Bank of India. The members of the clearing are the Imperial Bank, the nine exchange-banks and the Central Bank of India. T. Cook and Sons (Bankers), Dawsons Bank and A. Scott & Co. clear through clearing banks. Other banks have no access to the clearing.* They, like all the financiers of the second class mentioned at the beginning of this chapter, must settle cheques directly. A bank whose customer pays in to his account a cheque drawn upon one of them sends the cheque by messengers direct to that one and receives generally payment in cash. Some of them give instead a cheque upon the collecting bank or a clearing bank unless the amount is small.

87. The total clearings for every week in 1927, 1928 and 1929 are given amongst the miscellaneous statistics in the second volume of this report, as also are the total clearings for a number of years. The weekly clearings during the season March to June exceed the average. With regard to the annual totals there is a difficulty in the differences of the reports obtained from different sources, as explained in the note prefixed to our statement of the totals, although all are founded upon the same weekly returns. It is clear, however, that steady growth took place till 1913; the shock of the war in Europe brought a great fall, so that according to the figures given by the Controller of the Currency the total for the financial year April 1915 to March 1916 was only 395 millions, or under two-thirds of the 1913 total. Subsequently there was a rapid rise to 1281 millions in 1926, with a sudden dip in 1923 and partial recovery in 1924. According to the most reliable returns the totals in 1928 and 1929 were 1204 and 1216 millions respectively.

88. The figures for total clearings are affected by the practice with

* Except the *Bank of Chettinad, Ltd.*, (see footnote to paragraph 70) which began on the 11th June 1930 to clear through the Imperial of India.

respect to payments by one bank to another. Cheques drawn upon the Imperial Bank of India for such payments are not always passed through the clearing ; if money is wanted urgently they are not. Since the amounts of such cheques are large the total volume of clearings is materially affected by these direct payments ; and, in comparison with some other places (e.g., Calcutta and Bombay) where all these cheques are passed through the clearing, the total volume is lower in Rangoon than it should be. There is no reason, however, to suppose that there has been any such change of practice in Rangoon as would affect the comparison of one year with another there.

89. **Currency.**—As part of the Indian Empire Burma uses the Indian currency ; but it appears to be distinguished from other provinces by the greater popularity of paper money. Currency reports for many years have commented upon this ; there have been returns of rupees from circulation even in the busy season, and the rice-crop and other principal crops are bought almost entirely with notes. Cultivators like to have some rupees and small change for convenience in their daily household transactions ; but subject to this they prefer notes to coin. Notes of one-rupee and Rs. 2½ were unpopular for reasons of practical inconvenience. Five-rupee notes are readily accepted, but ten-rupee notes are the most popular. One-hundred-rupee notes are accepted readily where convenient, but ten-rupee notes are preferred by ordinary people whose transactions are on a modest scale. Dealers going out to buy paddy from cultivators at harvesttime commonly take one-half of their money in notes of ten rupees, the balance in notes of a hundred ; for other produce the sums paid are often smaller and the proportion of ten-rupee notes taken is consequently greater. Dealers buying paddy stored in granaries take most of their money in notes of Rs. 100 ; the sellers in these cases find the larger notes more convenient because they use much of it in large sums. Paper money has been popular in the more advanced districts near Rangoon for some years, and its popularity has steadily spread. In the period from December 1923 to March 1924 nearly 5½ crores of additional money were issued by the Currency Department in Burma in response to the annual demand for additional currency to finance the paddy trade ; of this only 18 lakhs or about 3 per cent., were in silver, all the rest being in paper.* In the area of our enquiry in fact silver money has been largely displaced by paper money. But the Shan States and other outlying areas still demand silver rupees or gold.

90. The statistics of the net amount of notes issued by the Currency Department in Burma are for technical reasons unreliable as measures of the notes circulating in Burma ; there are certain discrepancies in the rest of India so that, although the circulation is accurately known at every moment for all India, neither the total amount of notes in

* Currency Report, 1922-23.

circulation in Burma nor even the total amount in circulation anywhere of notes issued in Burma is ever known. The statistics of the Rangoon Currency Office show for the absorption of notes only the excess of the total amount issued by that office above the total amount withdrawn by that office ; and the last amount includes the five and ten-rupee (and the old one-rupee and Rs. 2½) notes of all circles, because (i) all these are accepted by Government anywhere without reference to their office of issue, and (ii) they are destroyed without sorting and counting according to that office. Thus the Currency Office records show that on the 31st March 1929 the total value of ten-rupee notes in circulation in India (including Burma) was 746 millions, while the value of such notes shown in the accounts of the Rangoon Currency Office alone was 306 millions. The discrepancy is perhaps even more vividly shown in respect of the one-rupee notes of which the issue stopped in January 1926 ; on the 31st March 1929 the total of these outstanding in all India (including Burma) was 4 millions, whereas Burma alone showed 25 millions. In the case of Rs. 50 notes Burma shows a minus quantity in circulation because the notes issued at Rangoon in recent years have been notes of the Calcutta Currency Office. The statistics for notes of Rs. 100 have been affected by the varying favour for ten-rupee notes. The old patterns of these were liable to forgery, and notes of the Rangoon circle happened to form a very large part of the forged notes seized by the police ; hence some distrust of the ten-rupee notes arose for a time until the new pattern was introduced. (No forgeries of the present blue ten-rupee notes have been discovered.) Statistics for notes of denominations above Rs. 100 have little value because such notes are not used for ordinary currency.

91. Currency Chests.—Government has undertaken to maintain a certain stock of silver so that silver coins can always be obtained in exchange for notes. There are also rules concerning the exchange of gold for notes and notes for gold,* and these are of great importance to the country ; but they are not studied in this report. The stock of silver kept by Government is not kept all at one place but is distributed in all the Government treasuries, where, however, it is not mixed with the ordinary moneys of Government (called the treasury balance) but is strictly kept separate from them, in what are called currency chests. The principle observed in administering the currency chests is that no money may be taken out of any one of them without an equal amount being first put into the same or another one. If currency notes are taken out of a chest and an equal amount of rupees is put into the same chest, the amount of currency notes in circulation (including those in the ordinary moneys of the treasuries) is increased ; but the total amount of rupees in

* Section 5 of the Currency Act, 1927, requires the Government to give any person demanding it either gold at Bombay or sterling in London in lieu thereof at a certain price in exchange for rupees and notes above a certain minimum (roughly cs. 22,620).

the currency chests is increased by an equal amount, so that the balance of currency notes in circulation and silver rupees in the currency chests is not upset. A more frequent use of the currency chests is for purposes of remittance by telegraphic transfers as described in paragraphs 363 to 368. The most important use is to enable Government to avoid locking up its funds in scattered treasuries and yet avoid the necessity for frequent transfers of coin and notes from one treasury to another.

92. Movements of Money.—Money is taken out into the villages in December to March by the dealers who buy the harvests. The cultivators use most of this to repay short-term advances taken since the previous May, to pay for goods bought on credit during the same period, to pay such part of wages and hire of cattle as is paid at harvest in cash, to pay their land-revenue, to repair their houses, and to pay for clothing and other goods bought in the hot weather and for the festivals and religious expenditure and journeys of that season. Some cultivators buy just after harvest an annual supply of clothing and tobacco and enough of certain kinds of food to last until the next harvest begins. Some of the moneys disbursed by the cultivators as repayments of loans are sent by the Chettians to Rangoon; some are used to finance the disposal of the crops by the middlemen. Money used to buy imported goods finds its way back by steps through the traders or the Chettians to Rangoon, and some money used to buy other goods gets back in much the same way to the various large trading centres. The money which thus comes back from the cultivators to Rangoon and other large centres flows out again to the villages in the next season to repeat the cycle. Thus part of the money goes out from the big towns in the early part of the open season (November to May) and returns to them in the later part of that season; while another part, perhaps about equally large, stays in the rural areas, without travelling far. The latter part circulates from cultivators to labourers, food-purveyors and cattle-owners; and from them to traders and money-lenders, and then round to cultivators again in the form of loans. In the delta Dawsons Bank helps in this local circulation by selling in Rangoon telegraphic transfers on its branches for money required in the delta to move the paddy crop in January to April.

93. Chettians send a considerable amount of money to and from Rangoon in the form of currency. It is said that the money brought in by Chettian clerks from stations along the Prome railway-line to four Rangoon firms alone amounts to half a million rupees a day for ten to twenty days at the height of the season; and large sums are sent in also from Wakèma, Moulmeingyun and other delta towns. When the amounts are smaller a clerk from one Chettian firm in the place takes up money by train or steamer on behalf of all the firms in the place, having changed the money into one-hundred rupees notes for the

journey ; thus the expense of messengers' fares is reduced. Chettians also give out locally money which will be used to buy paddy to be sent to Rangoon ; they thus get in exchange for their money a credit in Rangoon. There is also a considerable amount of payments to Rangoon which are made with the aid of supply bills drawn on Rangoon and telegraphic transfers on Rangoon.* On the other hand Chettians receive money from local traders in exchange for hundis drawn on Rangoon with which the traders can pay their suppliers in Rangoon. Fresh advances by the Rangoon Chettians to rural Chettians are made to a considerable extent through the Imperial Bank of India and by telegraphic transfers on the local currency chests.

94. One-half of the total land-revenue receipts of the year, that is to say, one-sixth of the total of the year's revenue, is received in March ; moreover this inflow into the treasuries follows closely upon the collection of capitation-tax and *thalhameda*, † and when added to these make up more than one-quarter of the year's total revenue. There are also large disbursements by Government all over the country in February and March ; but, even so, the net receipts of Government nearly everywhere are heaviest in those months. The money so received is gradually transferred by the Accountant-General to the treasuries and currency chests where it will be wanted for paying telegraphic transfers and supply bills during the next busy season. An important matter in connection with these large net collections of revenue in February and March is that, being made during the marketing season, they coincide with the maximum demand of the year for currency and credit ; this is inevitable, because the cultivator must either realise his crop when it is ready or get more credit, and revenue must be collected soon after the crop is ready lest the proceeds should get dissipated.

95. Formerly the Comptroller-General of the Currency used to take rupees from Burma temporarily to finance the grain and jute trades in India ; but a larger amount was sent from India to Burma to meet the demands of the rice-trade. The average excess of rupees brought from India over rupees sent to India in the years 1904 to 1907 was 87 lakhs. On the other hand a considerable amount of rupees used to be taken from Burma to India by Indian labourers returning to India at the end of the rice season ; the total taken by over 200,000 persons ‡ might easily have equalled the 87 lakhs brought from India by Government. Nowadays remittances of rupees between India and Burma are small, and, apart from a consignment of 3 lakhs sent annually for examination as a sample

* Telegraphic transfers and supply bills are described in paragraphs 363 to 368.

† A tax in Upper Burma. The total demand for a village is calculated at a flat rate per household which is revised when the local land-revenue settlement is revised ; but the assessment upon each household is determined by elders of the village according to each assessee's supposed capacity to pay and his influence over the elders.

‡ Nowadays the immigrants number over three hundred thousand per annum.

of the coinage in Burma, are rare. This is due to the growing preference for the paper currency, which allows an expansion of the currency in a particular part of India without transferring silver rupees. The additional currency needed seasonally to finance the marketing of the paddy harvest is provided by reducing the paper currency in India to correspond to the additional notes issued in Burma. When the seasonal demand is over in Burma the reverse process provides currency for the same purposes for other crops in India.

96. A considerable amount of money is carried away from Burma by Indians returning to India. First and second-class passengers carry much the same amount of money on an average, whether they are passengers to Burma or from Burma. This is also true for some sorts of third-class passengers. But for the Indian labourers, who form the majority of the third-class passengers, it is not the case. These come to Burma because they can earn more there than in their own localities. They bring little money with them. While in Burma they make money-order remittances, largely by telegram. When they return to India they carry the savings of the last few weeks with them, and sometimes are entrusted with money by friends who wish to send to the same neighbourhood. Both rupees and notes are carried; rupees are often carried in hollow belts specially made for the purpose so that the rupees can be arranged in a line along the length of the belt. Enquiry was made at our chairman's request by the Protector of Immigrants, Rangoon, into the amounts actually carried. He instructed his assistant to ask a number of passengers of the labourer class individually how much money they carried with them. The enquiry was made in February and March 1930; probably the sums carried would have been larger in April, but we could not wait till then. Only a few records could be obtained on each ship. Naturally most persons would not disclose what they carried; they feared they might be robbed on the voyage if that were known. As those who carried most would be most affected by this fear the enquiry was biassed towards an underestimate. Of the 340 persons examined (constituting a little over 1 per cent. of the annual migration) 44 per cent. carried Rs. 20 or less, 28 per cent. carried over Rs. 20 up to Rs. 50, and 17 per cent. carried over Rs. 50 up to Rs. 100. Thus about 90 per cent. carried anything up to Rs. 100, the remaining 10 per cent. taking between Rs. 100 and Rs. 500. The average per head was Rs. 46. On most ships about 10 to 12 per cent. of the total was in cash, the remainder in notes, almost entirely notes of ten rupees. If these averages hold good for all the emigrants there must be (after allowing for passengers in both directions) a net balance of something like ten millions of rupees taken by travellers to India every year, of which about one million are in silver and the rest in paper currency.

CHAPTER IV.—AGRICULTURAL INDEBTEDNESS.

97. **Introductory.**—We wish to draw a distinction between indebtedness and loans for current finance. The distinction is often neglected and serious confusion results. We do not regard a cultivator as indebted because he has borrowed some money to finance his current year's cultivation. If at harvest time he fails to repay his loan he is regarded as becoming indebted for the amount outstanding. For brevity we use the term *crop-loan* to represent loans which are expected to be paid back at next harvest and are therefore excluded from our term *indebtedness*; these form the subject of our next chapter. To prevent misconception we mention at once that crop-loans may be used for household or other expenses apart from cultivation; the name relates to the period of the loans, not primarily to their purposes.

98. By long-term loan we mean a loan which is not expected to be repaid within five years of being granted; by intermediate loan we mean a loan which is not expected to be repaid at the first harvest but is expected to be repaid within five years of being granted. Indebtedness thus consists of long-term loans, intermediate loans and stale crop-loans. The facilities for long-term and intermediate loans, and conditions affecting them, will be considered in Chapter VI. Thus the present chapter is confined to indebtedness regarded as a burden carried by cultivators and hampering the provision of long-term intermediate and short-term credit for them, especially short-term credit.

99. Obviously the amount of indebtedness, especially as it includes stale crop-loans, must vary from year to year according to the amount and price of the harvests, the incidence of cattle-disease and other circumstances. An excess above the average harvest does not compensate for an equal deficit in the previous year because the deficit gives rise to increased charges for interest. Hence the total indebtedness must rise abruptly after a bad harvest and diminish slowly after a good harvest.

100. **Volume of Indebtedness.**—The problem of agricultural indebtedness has been studied for many years in Burma. Revenue settlements are made at intervals of twenty years, and at each settlement statistics of the indebtedness of the cultivators and landowners are collected through enquiries from as many of such persons as possible. The settlement reports thus afford for each district (and generally for separate tracts of uniform character in each district) the results of a wide enquiry. A special enquiry was made in 1908-09 into indebtedness in the Irrawaddy Division, in which the matter was

studied in great detail. Many have studied the problem to seek a remedy for the bad crime-record in Burma, and in connection with the granting of land for cultivation. Studies in local areas are made by officers of the Co-operative Department. Evidence was given also before the Royal Agricultural Commission in 1926-28.

101. We asked in our questionnaire for suggestions for estimating the total indebtedness in Burma. Generally the opinion was that a house-to-house enquiry would be necessary. This means in practice something in the nature of the settlement enquiries. But the lapse of time since some of these were made, and other considerations, made us feel that we could not give the time and attention needed to compile their results to frame an estimate for the province. The quality of the statistics in recent settlements has improved ; but it must be admitted that some earlier ones left something to be desired. The enquiries, especially the earlier ones, were made by subordinates of little education. In some the enquiries did not systematically distinguish between indebtedness and crop-loans, though there was to a certain extent an automatic separation because part of the enquiries in each season and locality have generally been made soon after harvest. In some the sample of persons examined was small ; in others the sampling was unconsciously biassed. There is always a difficulty in getting people to disclose their debts, and often the debtors are hazy about the exact amount. Some settlement officers have been so deeply impressed by the difficulties of this part of their enquiries that they have despaired of collecting good statistics and have limited the attention given to this part so as to have more time for other parts of their work. A prolonged study of the reports might still furnish a useful basis for estimating the total indebtedness, but we did not consider that we should make it. The essential point that there is a great deal of indebtedness amongst agriculturists is notorious.

102. A rough idea of the order of magnitude of the total indebtedness can be reached in an indirect way. The greater part of it is certainly owed directly or indirectly to Chettians. Sometimes money borrowed from others has been provided indirectly by a Chettian from whom the lender has taken a loan. We think it is probable that the total loans by Chettians in Burma for agriculture amount to about 48 crores in December of each year, and that of this about 12 crores represent crop-loans.* From the reports of district committees it seems probable that in the districts which are most important for this estimate the Chettians have given about two-thirds of the total loans ; thus it appears that the total permanent indebtedness is probably of the order of 50 to 60 crores. Without any pretence that this estimate is accurate within any specified margin we think it gives a useful general notion of the total.

* See the discussion of Chettian working capital in paragraphs 471 to 476.

103. Confirmation of the estimate can be seen in the following way. The total area cultivated with paddy in the Pegu and Irrawaddy Divisions is 6·8 million acres ; by assuming for this an average value of Rs. 100 per acre we have a conservative estimate of 68 crores of rupees for the total value of such land. To this add a similar estimate of 13 crores for Arakan and Tenasserim Divisions with an area of 2·7 million and an average value of Rs. 50. The total estimated value is thus 81 crores for Lower Burma paddy-land alone. Again the figures of paragraph 55 for areas of land sold gave 0·42 million acres sold in 1928-29 in Lower Burma, while the registration statistics in paragraph 65 showed 92 million rupees as the value of sales registered in 1928. These numbers for area and value do not quite correspond, but they give a rough basis on which the total value of 1209 crores may be estimated for the value of the 9½ million acres of Lower Burma paddy land. This method probably gives too high an estimate because sales are more frequent for land of the higher values ; but it still makes the previous estimate of 81 crores look moderate. The second plan gives an estimate of 25 crores for the value of paddy land in Upper Burma, and will not be so such in excess ; take 15 crores as a conservative figure. Then the total value of paddy land in all Burma is not less than 96 crores of rupees. Up to 70 or 75 per cent. of the value of land can ordinarily be obtained on mortgage ; Burma lenders go up to 80 per cent. Thus the paddy cultivators alone have cover for at least 72 crores of rupees of long-term loans.* Allowance must now be made for all the other land, say one million acres in Lower Burma and over five million acres in Upper Burma, including garden land and other sorts which make a considerable addition to the cover. Debts secured on gold can be ignored because they could be paid off without depriving the borrower of any productive power or of any necessary property. But there are also to be reckoned debts secured on houses or cattle, and some unsecured debts. An estimate of 50 to 60 crores for the total indebtedness thus seems likely to be of the right order of magnitude.

104. Viewing indebtedness with respect to its effect upon the cultivating classes we asked district committees in Article 60 of our questionnaire to give us estimates of the distribution of practical cultivators who own the land they work into five classes, as follows :—

- A. Those who are free from debt and have cattle and enough paddy to last until next harvest begins (or have enough money to pay all their debts and buy this much paddy) ;
- B. those who do not belong to Class A but would be able to pay off all their debts if they used all the money they have and sold all their paddy but kept their cattle ;

* State land does not contribute to cover in proportion to its value ; but its owners still borrow, and the error in the estimate of total cover on this account cannot be large.

C. those who do not belong to Class A or B but have debts which are less than half the value of their land (not counting other property) ;

D. those whose debts are more than half the value of their land but are less than the value of all their property ;

E. those whose debts exceed the value of all their property.

Estimates were given by every district in the developed parts of the country and can be seen in the replies to Article 60 of the questionnaire in the third volume of this report. They are not based upon statistical enquiries, but they represent in each district estimates made in consultation by a number of people who have intimate knowledge of local conditions. The five classes too have not such clear limits as may appear at first sight. Still the figures probably do give a fair general idea of the truth. An average of the district reports (omitting three districts which reported late) gave the following percentages in the various classes : A, 14 ; B, 25 ; C, 26 ; D, 22 ; E, 13. Having regard to the roughness of the figures, we may thus reckon that one-quarter of the practical cultivators owning their land belong to each of the Classes B, C, D, while one-eighth belong to each of the Classes A and E. A proportion as high as 20 per cent. was estimated for Class A in the Akyab, Sandoway, Tavoy and Mergui Districts alone ; all these four, it will be observed, lie outside the general body of the country, and in fact the first two have (from an economic point of view) something of the same peninsular character as the other two. A proportion exceeding 20 per cent. was estimated for Class E in Tharrawaddy, Insein, Pakôkku, Sagaing and the Lower Chindwin Districts ; the actual percentage stated may be erroneous, but the evidence may be accepted as showing that there is a large class of bankrupt cultivators in those districts.

105. We further enquired how much burden of debt a cultivator can support. It seems to be generally thought that cultivators of Class C can generally maintain their position if they have good health and are up to the average in industry and skill.

106. Every district committee was asked also to estimate the proportion of tenants who cultivate paddy and in an ordinary year are able to pay their rent and all their debts and still put aside from their harvest enough paddy for their food until the early part of the next crop comes in. The average estimate was that one tenant in four belongs to this class ; but in some districts such tenants are rare.

107. **Causes of Indebtedness.**—In much of the discussion of the causes of indebtedness there has been confusion between those causes and the occasions of borrowing. A specific instance will show the distinction most clearly. Suppose a cultivator who has Rs. 150 in hand to pay his expenses till next harvest loses a bullock by rinderpest

in the middle of his ploughing. He must either buy or hire another. Suppose he buys for Rs. 100. Then before long he will exhaust the money in hand and need to borrow for domestic expenditure, which is thus the occasion of his borrowing. But the true immediate cause is the rinderpest. If one looked deeper one would perhaps ascribe the borrowing to ignorance of the way to protect cattle against disease ; and, on tracing back to their origin a large number of borrowings for occasions of various kinds, one might perhaps come to agree with those who ascribe much of the present indebtedness to general social and economic disorganisation.

108. Without pretending in the least to give a full account of the agricultural indebtedness problem, that being as large a task as the whole of ours, we mention twelve heads for consideration in connection with our particular task as follows : (i) money economy ; (ii) agricultural development ; (iii) vicissitudes ; (iv) lack of investment facilities ; (v) depreciation ; (vi) Buddhist inheritance laws ; (vii) religious and social customs ; (viii) national character ; (ix) speculative trading ; (x) abuse of credit ; (xi) rise in paddy prices ; (xii) high rate of interest. We do not even go as far as to say these are the most important considerations in the matter ; we merely mention them as some considerations bearing upon our task. We shall take up these heads in turn in the succeeding paragraphs.

109. **Money Economy.**—The extension of paddy cultivation took place, as we have described earlier, in connection with the development of the rice export trade ; it brought about in consequence a complete change in the conditions. Under the old conditions sufficient paddy was grown to feed the family and to barter for cart-wheels, for cooking-pots, or for yarn to be woven by the women and for a few other things not obtainable in the locality or requiring professional skill for their production ; most of the household needs were obtained direct from nature by the family. One must remember that the low wet lands of the southern part of the delta and the wide open levels of the northern part had not yet been developed. The paddy was commonly grown in small hollows and narrow valleys with jungle on rising land within a few yards of every field and house. Bamboos for building and for hundreds of miscellaneous purposes were readily available by mere cutting ; thatching, reeds for making mats, firewood and other timber, all sorts of edible leaves and fish were easily obtained. Cattle could be bred and pastured on the rising land, and a little patch of vegetables could be grown with little trouble. Mango and other fruit trees grew here and there. The cultivator gave only sufficient time to paddy cultivation to supply his limited requirements of paddy ; the rest of his time was devoted to all these miscellaneous tasks. The women and children helped in every part of his work except

ploughing ; that could be done only by strong men, and the sons generally married and went off and started their own holdings when they got strong enough for this. There was not much difficulty about declining years because long lives were unusual. But as cultivation extended the waste was cleared and wild products became more difficult to obtain. Cultivation spread into country of a different character, where less variety of products was offered, where in fact the miscellaneous activities of an upland area could not be pursued, and cattle could not be bred. In the later extensions the family could give less help because of the deep water and other physical conditions. Government, for revenue purposes, imposed restrictions upon fishing, and this developed into a specialised business on a commercial scale. The cultivator had to specialise in paddy cultivation on industrial lines instead of the old family basis, and to adopt a money economy. All the precepts of his parents, adapted to a different economic system, went awry ; he was without guidance and his money burned his fingers, especially when paddy prices began to rise. Moreover he found himself living in a new community without deep roots in the past and all that they imply in social organisation. The exported paddy encouraged the import of cotton cloth with attractive colours and patterns never seen before even in expensive silks, and at the same time the local conditions made home-weaving more difficult. All sorts of miscellaneous goods were imported ; some were necessary to replace the things with which the cultivator could no longer supply himself ; some were cheaper or more convenient than the native things for which they could be substituted ; some appealed to the Burman's strong love for novelty and easily coaxed his money out of the pocket in the new belt he had bought himself. His standard of life had been very low ; naturally it took the first opportunity to rise and went beyond the proper level. Some things which had been available before could only be bought with difficulty because of the scarcity of a medium of exchange ; now they could easily be bought, and there was the same indulgence that the munition-makers in England showed some years ago when they suddenly found themselves handling money on an unaccustomed scale. The change, occurring so quickly for a nation without previous contact with the outer world, was a shattering national experience that no people anywhere in the world could have passed through unscathed. During its course wrong ideas about the control of expenditure grew up, and the whole environment encouraged the many economic errors of which some examples are being mentioned in this chapter. We are compelled here to pass over many aspects of importance to our study. Without an appreciation of this change the present indebtedness in Burma cannot be investigated. More important, the traditions with respect to borrowing in general, including short-term loans, will not be understood. Above all it must be remembered that all

this took place only thirty to sixty years ago, and that in some places it is still more recent ; the parents of many of the present cultivators were born in about 1875 when the change was just beginning.

110. Agricultural Development.—The rapid extension of paddy cultivation could not take place without the investment of a large amount of capital. There was for many years a common saying amongst non-cultivators in Lower Burma that the soil needed only to be tickled with a hoe to make it laugh in a crop. That may have been true seventy or eighty years ago. But in the days of industrialised agriculture and cultivation for an export market it has not been true. The more fertile lands had heavy jungle, which required capital to be invested for its removal ; as such land moreover takes from twelve to fifteen years to reach full productivity, much debt was incurred by pioneers extending cultivation. Some pioneers were merely the agents of capitalists, and never had reason to expect to win through as owners of the land they cleared. Some who had more chance got fever and either died or incurred more debt than they could carry ; owing to the restrictions imposed by Government upon the alienation of newly colonised land, the lenders were unable to regard the land as security or even as a valuable asset of the borrowers, could therefore take only the standing crops as security, and charged a high rate of interest accordingly. Some pioneers came through victoriously as owners of wide stretches of fertile land. Most who succeeded at all got a holding subject to a mortgage. We cannot go here into detailed discussion of the economic side of this colonisation ; we can only point out that much of the indebtedness of the wide paddy areas which are comparatively newly cultivated represents capital sunk in the improvement of the land from jungle to paddy-fields. The original pioneers had often no capital at all ; their children and grandchildren have land subject to mortgage. A large part of the indebtedness of agriculturists in Lower Burma is not strictly unproductive, because the whole productivity of the land is due to the clearing and improvement carried out by the aid of the borrowed capital.

111. Vicissitudes.—The cultivator's risks of drought, flood, pests, illness, bad prices and a thousand and one other things have been mentioned so often that we mention them here only to reassure our readers that we are not overlooking them, and to mention that practically no insurance provision for cultivators exists. Co-operative societies for cattle-insurance have been tried ; but so far no real success can be claimed. The special difficulties of these vicissitudes in the two generations immediately preceding the present, while the money-economy revolution was going on, must be borne in mind.

112. Lack of Investment Facilities.—All over the country people with money have been limited to moneylending, land and jewellery for its investment. Other investments were scarce and not well known. Investment in land by non-cultivators has been an influence raising the cost of land to cultivators and involving them in greater debts for its purchase and in greater interest charges to correspond. Investment in jewellery is unremunerative in the material sense, but finds some justification as a way of storing up the profits of good years to use in bad years either by selling the jewellery or by using it as security for loans. The envy and emulation inspired in some women by the jewellery of others has led, however, to the purchase of jewellery even with borrowed money. The joy of wearing such jewellery on a few occasions in the year has often been purchased dearly, if the interest paid for borrowed money, or the loss of interest that might have been had by investment, is considered.*

113. Depreciation.—A matter which has not received enough attention is the indebtedness arising from the failure to provide for depreciation of cattle and implements, so that when their usefulness comes to an end there is no fund to replace them without borrowing. As the debt so incurred is commonly not paid off by instalments during their term of usefulness, the next time for replacement often sees the debt increased. There is in fact a steady consumption of capital going on: Largely this is due to a lack of appreciation of the facts ; the same error is being exhibited on a considerable scale at the present time by the owners of taxis and motor-buses, who consume the gross profit and make no provision for replacing their vehicles in a year or two when they will be worn out. Partly this omission is a natural consequence of a desire for a higher standard of living ; it is difficult to put aside forty rupees as depreciation for cattle when so many desirable things, whether luxuries or not, are lacking in the household. The difficulty is greater still when no banks for depositing the forty rupees are readily available and there is no tradition of such saving.

114. Buddhist Inheritance Laws.—According to Burmese Buddhist law land should be divided amongst all the family of a deceased person. If the holding is not large enough to be shared amongst them all, it may have to be bought by one of them who will have to mortgage it to raise the money. The several small shares are as likely as not to be frittered away or consumed, in the manner described just above, as the depreciation of cattle or a cart ; thus eventually the deceased parents free of debt are replaced by an indebted son, while the other children are no better off than before. If the holding was

* See also paragraphs 592 and 593.

already mortgaged by the parents it is unlikely that the children can retain possession at all if they share out. There is a good chance then that the land will come into the hands of a non-agriculturist.

115. Religious and Social Customs.—Funerals, initiation ceremonies for boys (*shin-pyu*) and ear-borings for girls all help to use up considerable sums of money in an uneconomic way, which leads to borrowing soon after even if there is no borrowing for the occasion itself. The present customs were formed when an entirely different economic system existed and the customs made no such drain upon the people as now. Similarly, while we recognize that spiritual needs must be supplied as well as material needs, we think there is often excessive expenditure on Buddhist monks and that this helps to cause indebtedness.

116. National Character.—The following passage, taken from a note prepared in 1926 by Mr. E. G. Pattle, I.C.S., for the Royal Agricultural Commission, exhibits the national character both with regard to indebtedness and with regard to the collection of capital :—

The *bourgeois* ideal of economy as a rule of life pursued with a view to financial security makes little appeal to the Burman agriculturist. Habitual indebtedness causes him no twinges of conscience and involves no social stigma. On the contrary the existence of a debt involves the existence of a creditor to whose interest it is to support and protect the debtor. His essential requirements are simple ; but he is not hampered by social conditions, and is always ready at any moment to expand the range of his expenditure to the limits of his credit. The possession of money is to him an opportunity to be used in a manner dictated more by the chances or exigencies of the moment than by conscious choice. His philosophy teaches him that all is impermanent, and even in the secure areas of Lower Burma this dogma is reinforced by experience. The economic history of Burma in the last half century is one of unceasing and revolutionary change.

We think, however, that it is at least unlikely that the Burman is really so careless about repaying loans. Looking at the matter from an evolutionary stand-point it seems improbable that a nation could develop as the Burmese nation did, and endure so long, if it had as one of its fundamental characters a complete lack of responsibility about the repayment of loans. The system would simply not work. It is proverbial everywhere that debtors manage to avoid meeting their creditors ; and there is a proportion of chronic defaulters everywhere. But carelessness on the part of Burmese lenders is not alleged, and it may be presumed that it never existed. Let the extreme contempt which Burmans had for Indians until recent years (and still have in rural areas) be remembered, and the effect it would have upon the sense of a duty of repayment of loans to Indians. An explanation of the

present Burman attitude towards the repayment of loans, more rational than ascribing it to a fundamental character of the race, is that it is a temporary effect due to recent conditions of easy credit from Indian lenders and without adequate control in the application of loans. As a temporary effect it is susceptible of removal. This is not the common view ; but the argument in support of it deserves consideration, and present-day experience alone is not sufficient for its rejection.

117. Speculative Trading.—One of the most frequent causes of indebtedness of agriculturists and of the loss of their land has been trading in paddy, borrowing money for the purpose on mortgages of their land. The realisation of this is important in connection with all schemes for financing cultivators to postpone the sale of their paddy ; it is better for them to stick to their own trade of agriculture and to leave trading to those who make a speciality of it. Other forms of trading are also engaged in, particularly the purchase of produce special to Lower Burma or Upper Burma for sale in the other part of the province. The Burman is distinguished by his versatility ; but these ventures in the conditions of to-day's money-economy often lead to loss, so that the adventurer is left with a heavy mortgage on his land.

118. Abuse of Credit.—The natural result of the rapid increase in money-income of paddy cultivators has been extravagant spending and abuse of credit. It is well-known that as a rule indebtedness is high where the land is good security and loans are readily obtained. Indebtedness in fact increases with borrowing-power. This is not confined to Burma, nor even to India ; it was exemplified even by the thrifty German peasants when the change from feudalism to independence gave them a great access of credit ; it was exemplified by the United States of America when land values increased through the construction of railways. It is not even confined to agriculturists ; the enormous sale of motor-cars in America in recent years has exemplified it again. The Burman cultivators had a special temptation in that they had to pass through the revolution from a natural to a money economy just when the expansion of credit took place. At the same time they were brought into close contact with a more expensive civilisation, represented in Burma chiefly by a class who were well-off even in comparison with large numbers in their own country, and followed a particularly expensive mode of life because they were living under the difficult conditions of a climate which differed greatly from that to which their race was accustomed and their habits of life adapted. Not only was there temptation to extravagant expenditure ; there was temptation to excessive investment. From 1900 to 1908 paddy rose in price by nearly 50 per cent. and many Burmans thought they had only to borrow money and buy land to get rich easily. The Chettiars also

fell into error, and instead of steadying the borrowers encouraged them to borrow ; they even went about the villages inviting and encouraging people to borrow to invest in land. The Burman was still a novice in the new economic system on a money basis ; the Chettiar was an expert in money and his teachings were accepted. Many owners of paddy holdings borrowed to buy a second holding, mortgaging both their old land and the new holding to get the money. The demand for land forced up its price, but both borrowers and lenders always thought the price would climb still higher. In 1907 a financial crisis occurred in the United States of America and the world-wide money stringency which resulted led the Chettiers to call in their loans. Many borrowers then lost all their land or sold off their new holding and still had a mortgage on the old holding which they had previously possessed freely. Thus many old-established cultivators who had managed during a period of rising paddy prices to pay off the debts incurred in colonising their land were added to the number of those who had not succeeded in that and had acquired a mortgaged holding.

119. Apart, however, from the calamitous events resulting from the boom of 1900-1908 there has been constant abuse of credit in borrowing for unproductive purposes. Lenders and borrowers have been equally responsible for the error, though neither has realised what he was doing. To a large extent this has resulted from a rise in the standard of living, going beyond the means available to support it and encouraged by the rise in the price of paddy during and since the boom. It is true that extravagant expenditure on exotic luxuries and specially fine clothes was seldom practised with borrowed money. It occurred in prosperous seasons when a plentiful harvest had secured a good price. But it often led indirectly to borrowing for current expenses because it consumed the reserves that ought to balance good years with the bad ones which will inevitably follow it. Expenditure has naturally been much curtailed in the last few years when the real price of paddy has been so low.

120. **Rise in Paddy Prices.**—Besides leading to an abuse of credit as described under the last head the rise in nominal paddy prices has (a) discouraged thrift (b) encouraged extravagance and undue enhancement of the standard of living and general anticipation of future profits ; (c) caused failure to provide in prosperous years for less prosperous years or to repay debt or to provide a sinking-fund for its repayment ; (d) strengthened unwillingness to reduce the standard of living temporarily in unfavourable seasons ; (e) encouraged litigation ; (f) encouraged speculation both in trade and in the extension of cultivation ; and (g) increased the difficulty of the cultivators in buying land.

121. **High Rate of Interest.**—Most of the considerations put forward above to explain in part the growth of indebtedness owe much of their effect to the high rates of interest for loans to agriculturists which have prevailed and still prevail in Burma. These are considerably higher than in most parts of India. In the recent enquiry by the Indian Cotton Committee into the finance of cotton-growing it was found that in Madras 84 per cent. of the loans were at one rupee *or less* per Rs. 100 per mensem; for all India the percentage was 52. In Madras 24 per cent. and in all India 18 per cent. of the loans paid interest at $12\frac{1}{2}$ annas or less. In Burma a rate of $12\frac{1}{2}$ annas has never been heard of amongst cultivators, whether for crop-loans or for long-term loans; while a rate of one rupee occurs only under exceptional circumstances in a few localities. The most usual rates are from 1·25 to 1·75 per cent. per mensem for loans secured on land or gold, with higher rates in other cases. The ordinary rates of Burma are the exceptionally high rates of India. For unsecured loans and loans of certain characters (*sabags*, etc.), the rates may be five or ten or more rupees per Rs. 100 per mensem. It is obvious that with these rates of interest it is difficult for a cultivator to avoid getting deeply into debt whenever any misfortune occurs to him. If he is not able to repay promptly, the compounding of large amounts of interest, also bearing interest at a high rate, makes a default happen easily; and after that the difficulties accumulate rapidly. Comparatively small loans begun on a promissory-note for a perfectly legitimate purpose may thus swell up into mortgage-loans too heavy for the borrower to bear. It is unfortunately true that many cultivators have by a single misfortune, such as ill-health or death of cattle or theft of cattle or a short harvest, been set inevitably upon a road leading straight to the loss of their land. For many of them this has resulted partly from the large amount of indebtedness due to extravagance and other errors in the past; but even those who have not borrowed so much can fall easily into the same plight as those who have; they need only have such misfortunes as those mentioned above in two successive years. Everybody, however industrious skilful and thrifty, is liable to suffer this. It has indeed been said that agriculture in Burma cannot pay its way with interest-rates at the present level. There is special difficulty just now in discussing that contention while the market for most agricultural products is depressed; but, whether the contention is true or not in normal times, it was clear before the depression began that the growth of indebtedness had occurred largely through the combination of the high rates of interest with various other matters over which the cultivator often had little or no control. The reasons for these high rates of interest will be taken up in Chapter XIX.

CHAPTER V.—SHORT-TERM CREDIT FOR AGRICULTURE.

122. **Occasions of taking Crop-loans.**—The term crop-loan* is convenient to describe loans granted to cultivators and landlords † of agricultural land with an expectation by the lender of repayment at the borrower's next harvest. There is often great difficulty in discovering the real cause of the need for any particular crop-loan. The practice is naturally to use any money in hand for the purpose of the moment, which may be the replacement of cattle or gambling or anything else ; as a consequence the resources for housekeeping and the cash expenses of cultivation are depleted, so that presently a loan is taken nominally for " food and cultivation expenses." No particular rupee in a cultivator's hands can be earmarked for a particular purpose ; there is only a total income and a total outgo. But there is a sense in which such borrowing as is repeated every year on a scale varying only in accordance with the previous harvest can be ascribed to household and cultivation expenses taken together ; and unusual borrowing can be ascribed to unusual expenditure ; it is in this sense that " reasons " for borrowing should be spoken of. Generally the reasons offered are not the reasons in this sense but only the occasions for borrowing ; statistics relating to the reasons for borrowing are consequently apt to be fallacious.‡

123. Crop-loans are taken by nearly all cultivators to meet current expenses of cultivation and of the household ; this indeed is the natural course of affairs, as any cultivator who had enough liquid capital to carry him through the year would have to keep much of it unemployed for a great part of the year with risk of loss by fire, theft, flood, etc., and with temptation to use it uneconomically and with exposure to applications for loans by poorer relations and friends and neighbours and for larger subscriptions to village festivals and to *thathameda*.§ Loans for current expenses are naturally larger in a year following a harvest which was deficient in quantity or sold for a low price. In average years some cultivators have a little money in hand after harvest, and, besides laying in a stock of certain provisions for use in the next six months or so, can carry on for a time without borrowing. Others with rent or interest to pay have nothing left from the harvest. A considerable amount of the

* See also the explanation of the term in paragraph 97, especially its last sentence.

† In this report " landlord " is used to mean a landowner who lets out his land ; a cultivator is a person, either an owner or a tenant, who performs or continuously supervises the agricultural operations on his land. Some are landlords in respect of some pieces of land and cultivators in respect of other pieces of land.

‡ Compare paragraph 107.

§ See foot-note † on page 50.

crop-loans taken by some cultivators is due to advances made during the cultivating season to their labourers of wages due at harvest.

124. Loans are also taken to buy cattle, either with deliberation when the idea has arisen that the cattle in use ought to be replaced or in an emergency when cattle have died during their working season and immediate replacement is a necessity ; whether such loans are really crop-loans or not depends upon the wealth of the borrower and the size of his holding. A cultivator who works four or five yoke of cattle must on the average have a replacement every year ; the cost of this becomes a normal expense of cultivation, and even an unexpected outlay to replace a dead animal will not be difficult to meet at next harvest. On the other hand for a cultivator with one yoke of cattle the replacement of even one animal is a larger matter in proportion to his ordinary turnover, even if on an average he is able in his part of the country to live as well as the tenants of large holdings in another part ; for such a man payment at one harvest is rarely possible. If he buys just after one harvest, he may borrow only part of the cost and repay next year ; if he has to buy unexpectedly, repayment at next harvest probably uses up all his cash and compels him to borrow part at least again in addition to his normal borrowing for current expenditure.

125. Loans are rarely required for the payment of agricultural rent, because that is generally paid in produce just after harvest. In those parts where the crop is uncertain the landlord allows a reduction if the harvest is bad ; where no reduction is allowed, part of the rent for a bad season may be allowed to stand over until the following year, when the tenant may get a better crop and be able to pay the deficiency. Some of the harsher landlords turn the postponed rent into a cash debt at interest ; but that is not the usual procedure. Cash rents are paid before the tenancy begins and they must generally be borrowed ; they are always fixed without hope of reduction in case of a bad harvest, but they are rare and in many parts are unknown.

126. In some parts landlords borrow to pay the land-revenue, because, although they have the produce received as rent ready to sell, they look for more profit in enhanced prices at a later date in spite of the interest charges incurred. Some cultivators also defer the sale and borrow in the same way ; but if they leave the crop on the threshing-floor they have the risk of rain, and if they move it to a granary to avoid that risk they have an extra expense. Postponement of sale is therefore done, as a rule, only by landlords. To avoid both the risk and expense landlords who have only one tenant and no paddy of their own sometimes ask the tenant to sell the rent-paddy from the threshing-floor together with his own paddy. If this is not done the landlord is bound to incur the expense of moving the rent-paddy whether he sells early or late, and therefore is more ready to postpone the sale. Moreover the landlords of large estates are better able to borrow for paying

the land-revenue. In some parts of the delta, especially the richer portions where much land is cultivated by tenants, the proportion of the land-revenue paid from borrowed money is considerable ; but this is no ground for asking for the revenue to be collected at a later date.

127. Crop-loans are sometimes taken to pay capitation-tax in Lower Burma or *thalhameda* in Upper Burma. As the capitation-tax is paid only by men between the ages of 18 and 60, and is an annual sum not exceeding Rs. 5 for married men and half of that for single men, borrowing for this payment is a small matter in comparison with other borrowings by cultivating owners and tenants ; to labourers, whether agricultural or urban, it is more important because they borrow more expensively. A few years ago the collection for each year (July to June) was postponed until January, but some district committees report that money is still borrowed on this account.

128. Ceremonies such as initiations (*shinpyu*) ear-borings, and marriages are commonly arranged to take place after harvest, when ready money is available ; but the consequent depletion of resources may cause more borrowing for ordinary current expenses in the next year than would otherwise be necessary. Funerals more often require borrowing for their particular occasion. In the evidence of the Hanthawaddy district committee it is stated that only the very poor borrow for funerals, but in fact persons in all-classes do so. In every Burmese village it is customary for funeral feasts and such festivals as initiations and ear-borings to be attended by most of the inhabitants of the same and neighbouring villages, and for subscriptions to be collected in advance from those proposing to attend. Subscriptions may include many as small as eight annas, and some may be smaller still ; but they go a long way towards meeting the cost in ordinary cases. The organiser of the occasion, e.g., the father of a boy being initiated, may spend much or comparatively little according to his wealth and desire to outshine others ; but borrowing for these matters is not so large as might be thought by a spectator unaware of the subscription system.

129. A few cultivators spend much money to educate children in town schools ; this sometimes leads to chronic borrowing which is really of the nature of a long-term loan ; it may not appear as such superficially, but may appear as an increase of the amount borrowed for current expenses. Ill-health of a cultivator may prevent him from working ; ill-health of his wife may require him to accompany her on a journey for change of climate as well as involve him in expenses for treatment ; such interruptions of work leading to reduction of profit in one year may cause additional borrowing for current expenses in the next. Ordinary repairs to houses are included in the current expenses already mentioned ; amongst cultivators large repairs or the building of

a new house generally await a fortunate season when yield and market-price are both good and only a small part of the cost need be borrowed. Gambling, litigation in civil, criminal or revenue courts, fines in criminal courts, and paddy speculation are mentioned as other reasons for borrowing ; but naturally any activity requiring expenditure may be a reason for borrowing. Whether such a loan will be a genuine crop-loan or become permanent debt depends upon the character and circumstances of the borrower and the amount of the loan.

130. Lenders of Crop-loans.—A small proportion of the total crop-loans is derived from Government's loans under the Agriculturists' Loans Act. In some localities co-operative societies provide a large part of the loans and in the delta loans are given by Dawsons Bank ; but although these are important in their own localities they provide only a small part of the total crop-loans of the country. Most crop-loans are provided by private lenders. In all Lower Burma taken together the Chettians probably lend rather more than half the total amount of crop-loans. Most of the balance is lent by Burmans or others of indigenous races ; some of these live in the towns and some in villages. In Upper Burma the Chettians are much less important, and most loans are made by Burmans and other indigenous people. In Akyab there are seven Arakanese joint-stock moneylending companies which finance agriculturists. Both in Upper and in Lower Burma there is a variety of Indian and Chinese lenders of whom a further account will be given below ; their share in crop-loans is much less than that of either the Chettians or the indigenous races. The Burmans are much the most numerous of the private lenders ; the Chettians are comparatively few in number although they provide so large a share of the loans. The total number of Chettian businesses lending to agriculturists is round about fifteen hundred, while there must be at least one Burman lender in nearly every one of fifteen thousand village-tracts, and most of these have several lenders. The succeeding paragraphs will give a short account of the various lenders in turn.

131. Chettians.—Throughout Lower Burma, except in Tavoy and Mergui, Kyaukpyu and Sandoway districts and some areas in other districts which have comparatively little intercourse with the general body of the country, the Chettians are the mainstay of agricultural finance. They not only do a large, generally the largest, part of lending direct to agriculturists ; they also finance to a considerable extent others who do such lending. So important are the Chettians in some parts that the Hanthawaddy district committee has reported that they are the only lenders, while Tharrawaddy ascribes 99 per cent. of loans to Chettians. In some districts of Lower Burma, where Chettians lend directly on a smaller scale, they compensate for this by lending to the other lenders. For example in Prome district it was estimated by the district

committee that Chettians lend one-third of all the crop-loans directly and finance the Burman lenders to such an extent that Chettian money forms altogether two-thirds of all the loans. It is probable that the Chettian provides as much as this in all Lower Burma, except only the areas mentioned at the beginning of this paragraph. We estimate the total amount of crop-loans annually provided by Chettians, directly or indirectly, in Lower Burma at 100 to 120 million rupees. In Upper Burma the Chettians probably provide not more than 5 million rupees as crop-loans, making a much smaller share of the whole, probably only about one-sixth.

132. Chettians do not make a formal classification of their loans into long-term and short-term business. The borrower says when applying for his loan that he wants it for meeting expenses of cultivation and housekeeping, for buying cattle or redeeming an old mortgage, and the Chettian can judge in most cases whether the loan is a crop-loan or not. But the documents relating to the loan will make it repayable on demand in any case ; there will be no stipulations as to instalments of repayment in the case of a long-term loan, and there is no classification between long-term and short-term loans in the Chettian's books. The Chettians are ready to supply all the financial needs of their clients, and so long as interest payments are not in arrears and the security seems good they allow the loan to run on, subject to the revision which takes place when a local Chettian agent is changed.

133. Further information about the Chettians and their loans will be found in Chapter XIII B.

134. **Indigenous Lenders.**—The most numerous non-Chettian lenders are naturally the indigenous people of the country, that is to say chiefly Burmese (including Arakanese). In some places there are Karen lenders ; these lend almost solely to their own race. Even in those Lower Burma districts in which the Chettian share in agricultural finance is of the order of nine-tenths of the whole, there is a large number of indigenous lenders, some of whom are themselves agriculturists. In Sagaing division the Burman landowners provide the greater part of the loans to agriculturists, and throughout Upper Burma Burmans supply much more agricultural finance than in most parts of Lower Burma. Moneylending is a trade which amateurs can ply as soon as they have capital ; even ten rupees can be used. There are everywhere landlords who lend to their tenants, but this is properly regarded as part of the land-letting business ; in many cases the landlords themselves borrow from Chettians or others to finance their tenants. There are besides large numbers who have a capital of a few hundreds or thousands and lend it out to any surrounding cultivators and regard this business as an important, and perhaps the principal, means of their livelihood ; some of them increase their working-capital

by borrowing from Chettians. But indigenous lenders who work on the ordinary scale of the Chettians of their neighbourhood can possibly be counted on one person's figures, and there are no associations of Burmese or Karen or other indigenous lenders and no organization amongst them.

135. Some Burmans who lend on a small scale are primarily agriculturists. Petty lending may be done by a practical cultivator ; but usually in such cases the lender works his land by hired labour under his own supervision. If he has enough money to lend on a considerable scale he lets the land to tenants, and he may confine his lending to the loans they require ; probably in such a case he will speculate in paddy, buying additional grain to go with that received as rent and storing it all for four or five months to sell at a higher price.

136. Most Burmans who have enough money to lend on a considerable scale are landowners, letting their land to tenants. They invest part of their money in land because that is the traditionally safe investment and often the only one they trust, and because it gives them social position and because they can use the land as security for loans to increase their capital for lending or to finance the purchase of paddy for storing. Moneylending and paddy trading are more profitable than land-owning and get a share of the capital accordingly.

137. It is probably not true, although the contrary is often stated, that professional Burman lenders are prone to overreach a borrower so as to get possession of his land. They find it easier to manage land and make it pay than a Chettiar does, and consequently keep it more often if it falls into their hands. But they are commonly restrained by public opinion from sharp practice, although disgruntled debtors in Burma as in other countries are ready to allege unfair treatment when they have been compelled to surrender their land to satisfy unpaid debts. There were special circumstances in the delta when colonization there was in full swing twenty or thirty years ago ; that would be too long a matter to discuss in detail here. Lenders were often lending in the expectation of becoming owners of the land the borrowers were clearing ; but to a large extent both borrowers and lenders were the slaves of vicious circumstances, of which some of the most important were the high rate of interest prevailing generally, the liability of the borrower to have his work interrupted by fever and often to die of it, and the Government's policy (perhaps the only one possible under the circumstances of the time) of leaving the distribution of land to be settled by an unorganized scramble while still inducing subterfuge on the part of lenders by the practices intended to keep the land out of the possession of non-agriculturists.

138. **Other Private Lenders.**—As stated earlier the foreign private suppliers of crop-loans are Chinese and Indians. Some mention may be made of Zerbadis or Burma Moslems who are a mixed race of

Burmans and Indians, Arakan Mahomedans who are a similar mixed race in the Akyab district, and the Kathè* (or *Ponnas*) of Manipuri origin but long settled in Burma ; all these might be regarded by some as of indigenous races. The Indian lenders are of all kinds, including amongst others Mappilas (or Moplas, in Burma called Kaka †) Chulias. † Gujeratis, Marwaris, Gurkhas, Sikhs and other Punjabis, Bengalis, Uriyas. In the Irrawaddy and Pegu divisions Chinese provide a great deal of credit, partly by straight loans but chiefly by selling on credit. Nearly all pawnbrokers are Chinese ; but the pawnshops are not mentioned in the report of any district committee as suppliers of crop-loans. Chinese are also in evidence in the Sagaing division and there are a few in Mandalay district ; but they do not appear to be as important as in Lower Burma except in the Kawlin and Wuntho townships of Katha district, where they provide three-fifths of the crop-loans. None of the foreign lenders mentioned have any organization like that of the Chettiers. Most of them own agricultural land, but practically none of them are agriculturists. There is a complaint in Akyab district that Indian lenders covet the land, and for this reason Arakanese lenders are preferred ; but since all lenders compete there is presumably some countervailing advantage.

139. Crop-loans supplied by Co-operative Societies.—

In the Pegu District the most successful co-operative bank in Burma provides through small co-operative societies about two per cent of all the crop-loans of the district ; in all other districts, except perhaps Mandalay, the proportion is much less. Since the closing of the Burma Provincial Co-operative Bank its loans to the societies are being replaced by loans from Government.

140. Crop-loans supplied by Banks.—

Crop-loans are not provided directly by any banks organized on western lines except Dawsons Bank. The Imperial Bank of India has an arrangement with each of two district co-operative banks to make advances up to one lakh of rupees for lending as crop-loans. The Imperial Bank and some of the exchange banks make advances to Chettiers ; but, as described in Chapter XIII B, only a trifling part of the Chettiar capital is provided in this way. The Bank of Chettinad issues crop-loans at all the 35 branches it has in Burma ; but we have regarded it for the purposes of the present discussion as included amongst the Chettiar lenders.

* Some accounts of the Kathè can be found in Article 169 of the Burma Census Report, 1921 and on page 179 of the Report on the Settlement Operations in the Prome District, 1914-16.

† Chulias are Tamil-speaking descendants of Hindus converted to Islam in the time of Hyder Ali ; Kaka are Malayalam-speaking descendants of Arab sailors who married women of the Malabar coast centuries ago. See Burma Census Report, 1921, page 217. Neither name is known in Madras Presidency.

Dawsons Bank advances about 2·5 million rupees annually in crop-loans to its clients, most of whom are landholders of the more substantial class.

141. Crop-loans by Government.—Government's crop-loans to cultivators are made under the Agriculturists' Loans Act, and in the ten years from 1919 to 1929 averaged 1·9 millions of rupees, while the total outstanding on the 30th June 1929 was just over one million. Many of the loans under this Act are not strictly crop-loans, but are intermediate loans repayable by instalments in two, three or four years ; we have no statistics separating crop-loans from intermediate loans.

142. In the annual land-revenue administration reports it has frequently been stated that the loans are generally popular and useful. Reports in a contrary sense have been rare. One deputy commissioner, however, qualified this report by saying the loans are popular where the market value of land is low and loans from the ordinary moneylenders are not easily obtained. So far as is mentioned in the evidence we have collected, the only advantage to cultivators of these loans above loans from private lenders is that the rate of interest, ten per cent, is less than any private lender's charge; in a few districts this advantage is said to outweigh the disadvantages. For example, in Prome district the readiness with which such loans are taken up is said to prove this. In Sandoway too the loans are popular because neither Chettiars nor co-operative societies exist there. Some other districts (*e.g.*, Hantawaddy, Maubin, Insein, Pegu) report that the disadvantages outweigh the advantages; we believe this is the general view in districts in which other sources of credit are readily accessible. The conditions in Prome district are a little peculiar because holdings there are small, smaller loans are used than in many other districts, the crops are somewhat precarious in a large part of the district, and some parts of the district are rather difficult of access. In Sandoway, as there are no Chettiars, the only other sources of loans are Burman and Zerbadi village moneylenders.

143. The disadvantages are various. One group of them is that there is much formality and delay, frequent attendances at the township office are required and there is always uncertainty for a long time whether the application will be successful; amongst the formalities special mention is made by some witnesses of the strict verification of security. The next group of disadvantages arise from the need to persuade the village-headman to recommend the loan and to persuade the clerks of the township office to see the papers are dealt with; in some places the peons have an interest too, as, for instance, when the township office is a part of a large district court-house with a number of rooms which is bewildering to a rustic. The Karen National Association says that clerks make difficulty even in the repayment of a loan. A third group of objections relates to the supply of money; the allotments made to

township officers for these loans are negligible in comparison with the financial needs of their townships and often too small to satisfy all the applicants. It is not of much use to a cultivator to get only a part of his current requirements from this source, and often to be uncertain for some time as to how much he will get ; moreover other lenders sometimes refuse credit to a man who holds one of these loans. In any case there is the difficulty that a cultivator cannot take his loan by instalments as he requires them; consequently he does not save so much in interest as the difference of rates would suggest. Finally there is a miscellaneous group of objections, of which one is that Government has a definite date for repayment. Another objection is that both the Chettiares and the co-operative societies advance a larger amount in proportion to the value of the security. Further it is said that in case of default the action taken is more certain and more rigorous than that taken by the Chettiares; but against this last may be set the statement by one deputy commissioner (Insein) that with a slack township officer there is an even chance of never having to repay.

144. Another objection arises when the advances are considered from the point of view of national economy. In some regions of precarious crop advances have been made year after year without being repaid, and have encouraged people to go on cultivating where cultivation was too risky; the flooded parts of Tantabin township of the Insein district are an example of this. Such an error in the distribution of credit is injurious to the national economy but difficult to prevent so long as Government grants loans, as the error is not always clearly exposed.* The only effective safeguard is the market-price of credit.

145. We recommend that, in regions in which credit is generally available in the ordinary way from banks or co-operative societies, or from Chettiares or other private lenders, Government's advances under the Agriculturists' Loans Act should be restricted to assistance in cases of widespread distress. Clearly the loans given in ordinary circumstances cannot be entirely withheld all at once; but there should be a steady reduction at a moderate rate of the allotments to districts in which such regions are extensive. Deputy commissioners should further be instructed to follow the same principle in the distribution within their districts. The allotments set free should be held by the Government of Burma as a central reserve to meet a disaster in any part of the country; such assistance could thus be given very promptly.

146. **Preferences of Lenders.**—In the Akyab district Arakanese lenders are said to confine their business to Arakanese borrowers because these are more honest than the Chittagonians and Hindus who compose the major part of other borrowers. Commonly Karen lenders prefer to deal with Karens rather than Burmans, while in the Myaung-

* Loans in Tantabin township were stopped in 1928.

mya district Chinese lenders are said to prefer to lend to Chinese. But generally lenders are said to have no religious or racial preferences, and to be influenced only by the security for their loans. The strong clannishness of the Karens and the mild suspicion with which they are apt to regard the quicker-witted Burmans, explain the Karen preference sufficiently, and language may play a part; although so many Karen men talk Burmese they are more at ease with their own language which they use in their homes. Community of language and psychology must in fact have an influence in many cases by affecting the lender's judgment of the security. Subject to this consideration, there appears to be no preference by lenders for any sort of borrower except in accordance with the security offered. There is for instance no evidence that Indians are favoured above Burmans for racial reasons. In the Maubin district Uriya borrowers are said to be favoured by lenders; but the reason is given that they work hard and never fail to make their payments. Old customers who have paid regularly in the past naturally get a preference, and sometimes are charged lower rates. Chettians, finding all borrowers foreign and doing business on a large scale, take a purely financial view of each borrower, refusing the loan or fixing the interest according to the material security and the borrower's previous record so far as it is known to them.

147. Preferences of Borrowers for certain Lenders.—

Some of our witnesses have stated that borrowers generally prefer Chettians to other lenders because they generally charge less interest. Another advantage which is appreciated is that Chettians generally have a supply of loanable capital. This applies also to some large Burman lenders, but there are few who have the same resources as an ordinary Chettian; the Chettian has the advantage of a large financial organization. In Maubin district borrowers are said to prefer to borrow from Chinese lenders because these do not usually resort to courts for recovery of their loans; it is reasonable to suppose that the Chinese are not more willing than others to sacrifice their loans, but select borrowers who pay without coercion by the courts. Some large Burman lenders are also said to make no use of the courts to recover loans, but to trust to the borrower paying without coercion.

148. Amount of Crop-loans used.—

Every deputy commissioner was asked to frame, with the assistance of the district committee, an estimate of the total amount of crop-loans used in a normal year in his district; but in many districts the problem was too difficult to be solved in the time available to busy officers. Some estimated the cost of cultivation without distinguishing borrowed money from the money owned by the cultivator, and without considering that some household expenses have to be met; some estimated the loans that

would be accepted from Government if offered. The total of the estimates made was 38 million rupees in Lower Burma and 19 in Upper Burma. Adding for omitted districts figures suggested by estimates for neighbouring districts, these estimates seem to imply 53 millions for Lower Burma and 38 for Upper Burma, or a total of 91 millions. This estimate is very rough indeed ; but it may be taken with fair confidence as a lower limit.

149. All the deputy commissioners approached the problem from the borrowing side. It may be approached also from the lending side, by using the estimate given in paragraph 474 of 10 to 12 crores of rupees for the amount lent annually by Chettians as crop-loans to agriculturists. Of this only about half a crore can arise in Upper Burma so that 95 to 115 millions are left for Lower Burma. To this must be added the loans provided by Burman and other lenders from their own capital, excluding of course amounts borrowed by such lenders from the Chettians. Earlier in the chapter we estimated that generally about two-thirds of the loans in Lower Burma are made from Chettian money directly or indirectly ; as some districts have few or no loans from Chettians the total of crop-loans for Lower Burma thus appears to be about 150 to 170 millions. For a reason about to be brought forward we think something under 160 millions is justified for this estimate. If to this we add rather more than 38 millions for Upper Burma (the figure suggested in the preceding paragraph) it appears that the total annual crop-loans of the country amount to something of the order of 200 million rupees (20 crores).

150. As some check upon this it is interesting to value the crops. The paddy produced annually in Lower Burma amounts to about six million tons, and in the last few years the average price in Rangoon has been about Rs. 160 per 4,600 pounds. If we reckon an average of Rs. 15 for expenses of carriage and middlemen the average price on the threshing-floors will be Rs. 145, and on this basis the local value of the total crop is about 424 millions. In comparison with this the estimate of 150 to 170 millions for crop-loans in Lower Burma does not seem unreasonable, though we are disposed to favour the lower part of the range and to adopt something under 160 millions. For Upper Burma a valuation of the crop is more complicated ; the error in our estimate of something over 38 millions is clearly not intolerable in comparison with the total for the country.

151. Further light can be thrown upon our estimate. The Pegu and Irrawaddy divisions of Lower Burma have 6·8 million acres of paddy land for which an average loan of Rs. 15 per acre may be reckoned. There are also about 2·7 million acres of paddy land in other districts where an average of Rs. 8 may be reckoned. These two estimates give a total of about 124 millions for Lower Burma. Rates of Rs. 20 and Rs. 9 per acre would give a total of about 159 millions. Allowance has

still to be made for a million acres under other crops. These calculations are too rough to be a ground for modifying our estimate of 150 to 170 millions above ; they may be regarded as showing that to be within reasonable probability.

152. The estimates of the last paragraph for the crop-loans taken per acre are rough assumptions based upon general knowledge and the statistics of the cost of cultivation and the cost of living which are given in settlement reports. There are no figures available for the actual annual borrowings in any except a few of those reports. We endeavoured in the rural survey mentioned in paragraph 19 to collect statistics of this matter in representative areas, and we give the results in the Tables I, II and III on page 77. The columns headed *p*, *q*, *r* in Tables I and II may be ignored for the present ; they will be explained later. The outturns in the last column of Table I represent paddy measured in the baskets used in each locality ; in Mandalay and Pyapôn these were equal to the standard nine-gallon basket and in Insein about 5 per cent less. The loans taken by owners in the Pyapôn and Insein enquiries showed respective averages of Rs. 320 and Rs. 528 per head, Rs. 21 and Rs. 13 per acre, and Rs. 637 and Rs. 450 per 1,000 baskets (local measure) of outturn. Reckoning the value of the paddy in local measure as Rs. 160 per hundred baskets these loans were 40 and 28 per cent respectively of the local value of the outturn. Rather different statistics might be obtained for crop-loans in a different year, according to the size and price of the harvest of the preceding season ; it is probable that in all three areas of the survey the year was fairly representative. The corresponding figures for tenants and for the enquiry in Mandalay district can be seen in the statement.* But the survey was not wide enough to be made the basis of general conclusions, though we believe the tracts studied were representative of considerable areas. Below Table II are shown the ratios of crop-loans taken to land-revenue paid.

153. **Time of taking Crop-loans.**—Crop-loans are taken chiefly in the period April to November, some districts beginning a little earlier or later than others according to the conditions of local agriculture. The busy season of borrowing generally begins in June or July. The loans are usually taken by instalments ; accordingly in our survey we divided the working part of the year for paddy cultivation into three parts which may be described as *before*, *during* and *after* transplanting. In the Tables I and II given on page 77 we have used the letters *p*, *q*, *r* to denote these three periods in order. The dates corresponding to these symbols vary a little from place to place, but generally

* The average value of paddy in the villages of the Mandalay enquiry may also be taken at Rs. 160 per hundred local baskets, although as in the other areas the price was less this year.

period *p* ends in July and *q* early in September. Loans of class *p* are taken largely for meeting various initial expenses of the cultivation season, including in different cases the purchase of seed, implements cattle or firewood or other household necessities ; a large part too goes in advances to ploughmen to be set off against their wages at next harvest. Loans of class *q* are used largely for food and wages of transplanters, advances to ploughmen and household expenses. Loans of class *r* are for food and household expenses and in some cases wages of reapers. Replacements of cattle may of course occur at any time in the year. In all the areas studied the proportion taken in season *q* was largest ; in the Lower Burma studies half the loans belonged to this period, while in Mandalay the proportion was higher and for tenants was two-thirds. It seems probable that the distribution in time of the 200 millions required annually in the whole country is roughly as follows : about 60 millions April to June, 100 millions from July to September and 40 millions more before harvest. The average period of a loan, calculated with each loan weighted with its amount, would thus be about seven or eight months.

154. Usually all the instalments are taken from the same lender, but this depends upon the distance the borrower must go to find the lender and upon personal circumstances of the borrower. Generally the lender who has given a loan at the beginning of the season is willing to give further loans as required ; and generally the borrower prefers to go to him for those further loans for the same reasons as impelled him to go to that lender for the initial loan. But if only a small loan is wanted, the borrower may, for reasons of convenience or of the expense of going further to find his financier, borrow it from another person nearer by. Burman lenders too have sometimes not sufficient capital to make all the advances required. Thus it happens often, but not in the majority of cases, that a cultivator has taken his crop-loans of one year from several different sources.

155. **Forms of Interest.**—Loans for cash interest are the commonest crop-loans in Burma, where there is in fact a tendency to adopt a cash basis for transactions of most kinds. All Chettiar loans, for instance, have the interest payable in cash. The rate is always fixed at so much per cent per mensem ; contracts for lump-sum cash repayments or for repayment by a fixed number of fixed instalments are unknown in connection with crop-loans. Interest is always payable at harvest-time and is never deducted from the loan at the time of issue. But loans on the *sabape* system (pronounced *s'ba-pe* or *sābāpe*) or on the *sabanyun* system are still taken in some parts. These two systems involve total or partial payment in kind, and are described below. Loans of paddy to be repaid as paddy are sometimes taken, but they are not common ; they are of course taken to be used as seed or as food.

Crop-loans of Cultivators (see paragraph 152).

TABLE I.

Location : number and class of cultivators.	Rupees per head.				Per cent at each season.			Average.	
	p	q	r	Total.	p	q	r	Area.	Out-turn.
<i>Insein</i> (51) ...	135	167	52	354	38	47	15	32	969
Owners, (23) ...	178	251	99	528	34	48	19	40	1,175
Tenants (28) ...	99	99	14	212	47	47	7	25	780
<i>Mandalay</i> (90) ...	38	99	31	168	23	59	18	9	325
Owners (49) ...	49	105	41	195	25	54	21	11	386
Tenants (41) ...	25	91	19	136	18	67	14	7	290
<i>Pyapôn</i> (42) ...	90	161	82	333	27	48	25	21	799
Owners (5) ...	80	160	80	320	25	50	25	15	502
Tenants (37) ...	92	161	82	335	27	48	24	21	839

TABLE II.

Location : number and class of cultivators.	Average Rs. per 10 acres.				Average Rs. per 1,000 baskets outturn.			
	p	q	r	Total.	p	q	r	Total.
<i>Insein</i> (51) ...	42	52	16	110	139	173	54	366
Owners (23) ...	44	63	25	132	152	214	84	450
Tenants (28) ...	39	39	6	84	123	123	18	264
<i>Mandalay</i> (90) ...	42	108	32	183	112	290	90	492
Owners (49) ...	46	98	38	181	127	273	106	506
Tenants (41) ...	35	125	26	186	88	316	66	469
<i>Pyapôn</i> (42) ...	44	78	40	162	113	202	103	418
Owners (5) ..	53	107	53	213	159	319	159	637
Tenants (37) ...	43	76	39	157	109	192	98	400

TABLE III. Ratio of owners' total crop-loans to land-revenue : Insein 3'37 ; Mandalay 2'39 ; Pyapôn 4'06.

NOTE.—Non-cultivating owners have been excluded from this page.

Another method of taking advances is the indirect method of buying on credit ; this is of course practised everywhere in the village-shops, kept usually by Kaka (Mopla) or Chinamen. Very few cultivators in Lower Burma sell their crops before harvest ; but this practice is not uncommon in Upper Burma, where State land is not taken as security for loans.

156. Rates of Cash-interest.—The rate of cash interest for a crop-loan depends of course upon many circumstances. The size of the loan may make it worth while to go further afield to find a cheaper lender, or necessary to go afield to find a lender with sufficient capital, and may thus determine the kind of lender. The time of the year makes a difference in the supply of money and also affects the period in which the lender is to earn his profit. The credit and solvency of the borrower are important of course, and an old customer whose affairs and character have been known to the lender for many years sometimes gets a higher or a lower rate on this account. The material security offered is of importance when the solvency of the borrower is not well-known to the lender. The urgency of the borrower's need and the general agricultural and financial conditions of the locality have their effect too. With poor communications the local supply of capital will generally be small and the rate of interest high. The rate may also be affected by the relative capacities of lender and borrower for haggling.

157. Generally the Chettians charge a lower rate of interest than other lenders. But this is not always the case ; in some of the larger towns in Lower Burma there are Burman lenders who lend as cheaply as Chettians and even more cheaply. The usual position, however, seems to be that a Burman lender, working on a small scale in a restricted area and giving close attention to each loan, can lend safely in some cases in which the risk would be too great for the foreign Chettian. Hence there has developed a tendency towards a division of business in which the Chettian lends over a wide area to borrowers who give the best security, while the Burman lender deals with borrowers not accepted by the Chettian. The Chettian employs a large capital over a wide area, selecting his borrowers, avoiding any treatment of them which would make them go to the Burman lender and seeing that he always has capital to meet their needs ; the Burman lender, taking advantage of his special facilities for supervising his borrowers, charges a higher rate of interest (which his borrowers must pay because they cannot get money from the Chettian) and makes an income with a small capital. There is exactly the same difference as between intensive and extensive cultivation. This aspect seems to clear up the suggestion that the Burman lender is harsher than the Chettian ; if he is dealing with a riskier borrower there is likely to be this appearance. The usual exaction of higher interest by the Burman

lender is similarly explained; in addition there is sometimes the consideration that the Burman lender has borrowed part of his capital from the Chettiar and needs to take his profit as middleman.

158. The usual range of rates of interest for loans of Rs. 100 to Rs. 500 from Chettians is 1'25 to 2'0 per cent per mensem, varying generally according as mortgage security is given or a promissory-note, though a trusted borrower may get a rate of 1'25 on a promissory-note. Small loans from Chettians on promissory-notes without collateral security may pay as much as 2'0 to 2'5 per cent per mensem. Loans by village lenders may have rates 0'25 to 0'50 higher than the corresponding Chettiar rates. Variations from the standards mentioned here are wide; Akyab district has reported that so low a rate as 0'875 (fourteen annas) is sometimes charged, while in some places the rate frequently goes up even to 4 to 5 per cent per mensem for small unsecured loans.

159. There are two reasons why it is not correct to multiply these rates by 12 and call them annual rates. In the first place they are reckoned nearly everywhere for the Burmese month, twelve of which are about eleven days short of a solar year; for urban borrowers English months are sometimes used, but this is rarely done for cultivators. In the second place the loan is not held for a whole year; the lender has to cover his expenses with the interest of a few months.

160. Rates of interest do not fluctuate from year to year according to the market. Prome and Maubin district committees report that during the last twenty years there has been a fall by one-third, while Toungoo reports a slight reduction and ascribes it to the introduction of co-operative societies. Mandalay says the fall is negligible. Myitkyina says rates have declined owing to the keen competition of lenders to get customers. Akyab similarly reports a decrease by one-quarter of the former rate owing to the increase in the number of Arakanese lenders. On the other hand Tharrawaddy reports a steady increase and Pegu says rates have increased by eight annas per Rs. 100 per mensem during the last ten or twelve years. On the whole we think there has been no marked change as a rule for loans of a particular character. But improvements of communications have enabled borrowers to go further afield to find lenders and so have enabled lenders in the towns to choose the better borrowers, attracting them by lower rates of interest. Consequently more loans have come into the class of lower rates although the rate for the class has not changed.

161. **Sabape.**—According to the *sabape* * plan an agreement is made to return after threshing so many village-baskets of paddy as payment of the principal and interest of the loan together. In Myitkyina the term *naung-pe* is used instead of *sabape*. The use of

* See paragraph 155 for pronunciation.

sabaŕe loans is generally dying out, especially in the Myaungmya, Pyapôn, Hanthawaddy, Insein and Tharrawaddy districts; but such loans are still common in some parts where the credit of cultivators or the supply of money on loan is small. Labourers and poor tenants often find these loans the only kind they can get, especially from October onwards when harvest is approaching; there is a tendency in some districts for loans taken before about October to be on a cash basis, while later loans are *sabaŕe*. The rate for *sabaŕe* loans is expressed by the number of rupees advanced in the expectation of a repayment of 100 local baskets of paddy. It must not however be supposed therefore that the loans are large; generally they are small loans of Rs. 20 or 30, or even Rs. 5 to pay capitation-tax, though a loan of Rs. 80 or so may be taken to buy a bullock. Naturally the rate varies in each place with the trend of paddy prices for the last few years, as well as with the time of borrowing. Common rates in recent years have been Rs. 80 in the early rains and Rs. 100 in the late rains, but there has been a tendency for these amounts to diminish. With paddy at Rs. 160 per hundred local baskets the interest on Rs. 100 borrowed at the middle of October and repaid with 100 baskets of paddy at the middle of the following March is about 12 per cent per mensem. The rates of interest for *sabaŕe* loans are high because they are given towards the end of the season to borrowers who can give no security; in nearly all cases the borrowers, if they had any security earlier in the season, have used it all up in previous loans. Generally too the borrowers are people who would in any case have too little paddy to be able to sell it profitably, having to pay in kind out of the harvest rent and hire of cattle and perhaps labourers. The typical *sabaŕe* borrower in fact is the tenant without capital, who uses all his harvest to settle his accounts and starts the next season with a new loan. In some cases labourers who are entitled to wages paid in kind at harvest take advances during the season at *sabaŕe* rates; but in many cases such loans are at cash interest, the produce wages being valued at the price the employer gets for his crop and the account settled in cash accordingly.

162. The same system is used for other crops, such as sesamum, beans, cotton, tobacco, potatoes (in Myitkyina); it even appears in Sandoway district in loans to fishermen repaid with *ngapi* (fish-paste). It is called in each case according to the name of the product; e.g., *wa-ŕe* for cotton. The current rates in the Meiktila district are as follows: cotton, Rs. 20 to 25 per 100 viss; sesamum, Rs. 2 to Rs. 3 per basket; groundnut Rs. 50 to Rs. 75 per 100 baskets, beans Rs. 1 to 1'25 per basket. The rate of interest generally works out at 15 to 25 per cent per mensem.

163. In some places payment for goods bought on credit is made with paddy or other produce; these credit purchases thus take on a

sabape character because the amount of the payment is determined according to cash prices for the goods and *sabape* rates. In some districts of Lower Burma this is now almost the only form of *sabape* loans in use apart from some advances to labourers by their employers. The creditors for such cases in Lower Burma are generally Chinamen, because most of the village shops of any size belong to them. Many of these Chinamen make a point of buying small amounts of produce, such as many tenants have for sale, and collecting till they have enough to sell to an ordinary dealer or to have milled as their own speculation.

164. **Sabanyun.**—The *sabanyun* agreement provides for a loan to be repaid in cash with its interest in the form of paddy. This is now becoming rare in most parts, and is in fact unknown in many districts. Two of the Burman members of this committee, for instance, living in Lower Burma, had never heard of it; settlement officers come across it sometimes.

165. **Documents for Crop-loans.**—Small loans given by Burman or Karen lenders to persons living near them or well-known to them are commonly given without any document or security at all; this is particularly the case amongst the Karens who are a very clannish people. Chettians always take an "on-demand" * if the loan is not secured by a mortgage. An on-demand is generally written in Burmese but occasionally in Tamil or another Indian language or English; on-demands in other languages than Burmese are however exceptional both for Chettian lenders and for Burman borrowers, and they generally have the amount of money shown in English. In Rangoon every on-demand executed by Burmans is written in both Burmese and English because an English translation is required by courts in Rangoon. Generally a printed form with blanks filled in is used. Whether the on-demand is written by hand or printed it is always in a very simple form, only recording a promise to pay the amount on demand with interest at a stated rate. If a mortgage is given for a crop-loan it is naturally a simple mortgage, and its terms are always simply and briefly expressed.

166. **Conditions not expressed in the Documents.**—When a document is executed there is generally no special agreement of any sort apart from it. But it is generally understood, whether a document is executed or not, that at next harvest the borrower will at least pay the interest due, and if the loan is for current expenses will endeavour to repay the principal at the same time. On the other hand, although the documents always say the loan is payable on demand, there is an understanding that the demand will not be made until the time when the produce should be ready for sale, and that payments due at

* That is, a promissory-note payable on demand; see paragraph 321.

harvest will be paid within a month of the time of actually selling the produce. If the borrower delays selling his produce more than most of his neighbours do, the time for making the demand is the time when the other demands of the neighbourhood are being made. The Commissioner of Sagaing Division has reported that in the frontier districts, whether a document is executed or not, there is an understanding that the borrower will sell his produce to the lender. In the Toungoo district it is said that there may be an agreement to treat the loan as if given on *sabape*, *pe-be*, etc., although an on-demand expressing cash interest is executed.

167. **Security.**—Small loans made by oral agreement alone, and loans to persons who have already mortgaged their land to the same lender are often given without security. Most crop-loans indeed are given without material security, but sometimes (not often) a guarantor * is required. When security is given it may be land, house, gold (including golden jewellery), cattle, carts, or standing crops. Land or gold is always required for a large loan, and in practice this means that for large loans land is wanted. But *large* means large in relation to the borrower's circumstances, and, since there is generally no clear distinction made between long-term and short-term loans, a large loan is commonly one that is not likely to be repaid at the first harvest; that is to say, land-secured loans are often loans which are likely to prove to be intermediate or long-term loans. Land is also taken as security where other security is not available or the borrower's character is doubtful or unknown to the lender. For genuine crop-loans the most usual form of security, if security is given at all, is a pledge of gold, which is nearly always in the form of jewellery; this kind of security will be separately treated in the next paragraph. In the Sagaing division however, cattle crops and carts are more usual security than gold, presumably because gold is not usually available while land is not acceptable unless it is non-State land. Nearly everywhere cattle crops and carts are hypothecated as security on a small scale, but they are not accepted as a rule by Chettiars; they are naturally more attractive to villagers living near the borrower. A curious distinction is reported from the Hanthawaddy district which consists of two subdivisions on opposite sides of the Rangoon River; gold is the usual security for crop-loans in both parts, but when it is not available the eastern subdivision (Kyauktan) uses cattle and rarely land, while in the western subdivision (Twante) cattle are not accepted and land must be given.

168. The proportion of its value for which jewellery is accepted as security has been variously estimated in the evidence on Article 5 (1) (h) of our questionnaire, owing to failure to distinguish between gold alone and gold with precious stones. The latter are of very little

* A guarantor always signs as a joint borrower : see paragraph 320.

friendship with the lender, by making a small present or rendering some service without any direct association with a loan. Neither can a borrower who fears the lender will be unwilling to wait for an overdue payment be prevented from making a present of fruit and other food to retain friendly relations.

172. Defaults.—If the interest on a crop-loan is not paid at the proper time and there is no mortgage, the borrower is commonly called upon to execute an on-demand or a mortgage for the principal money and interest combined. For loans by Burmese lenders to people of the same or a neighbouring village the general relationship of the parties naturally affects this matter, and sometimes a second harvest is awaited before the interest is so compounded. There is also the credit and reputation of the borrower to be considered; if he is an old customer in whom the lender has confidence the loan may run on for another year with simple interest; if the lender is uncertain about the borrower's future capacity and willingness to pay, he may take measures to recover the loan or require a fresh on-demand or insist upon a mortgage. Chettiars usually have recourse to litigation, or threats of it, sooner than Burman lenders; the latter have more facilities for bringing pressure to bear otherwise. The Chettiar takes a purely financial view of his business; if a debtor suffers loss the Chettiar does not expect to share in that loss like a partner, but expects to get his due; if there is a default the Chettiar's consideration is whether by waiting he will eventually be able to recover. Most lenders other than Chettiars and Burmans, and many of the latter, have other business dealings too with the borrower, and consider these and the loan together.

173. Disputes.—Disputes with regard to the amount due on a crop-loan are rare. The accounts kept by Chettiars are always trusted and no suggestion of false accounts is ever made. With Burman lenders there is also no difficulty; the parties can check over the calculation of interest together, and if the borrower is not able to follow the calculation he can call a friend to see it.

174. Influence of Crop-loans upon Marketing.—It has already been mentioned that in the frontier districts there is an understanding that the borrower will sell his produce to the lender. Such understandings are not common in most parts. Chettiars never make any conditions to restrict freedom in marketing the crop. As a Burman lender with considerable capital often trades in paddy at harvest-time, his borrowers might sell to him in any case, especially those who have only a small amount to sell. It is generally owing to the borrower's practice of selling his crop to the lender that the lender has an acquaintance with the borrower and is able to trust him with a loan. There is no

question as a rule of undue influence by the lender compelling the borrower to sell to him at low price. Occasionally complaint on this score is heard; but generally the price is as high as would be got elsewhere for a small parcel of produce. The *sabape* loans and other loans of the same character, described above, are practically the only case of restraint by crop-loans upon marketing.

175. Difficulties and Remedies.—Some district committees report that cultivators have difficulty in getting crop-loans because money is scarce; others say the difficulty is lack of security; others again say difficulty only arises after a bad harvest. The remedies offered include the development of agricultural banks, land-mortgage banks, co-operative societies, Government loans. We have already in this chapter indicated that Government loans are not a satisfactory source of credit for ordinary cases; it is moreover clear that these could not be a general solution of the problem because of the large amount of capital required. Co-operative societies are the accepted solution, and it is already the policy of Government to develop them; we may assume that when the special difficulties of the moment, which are briefly explained in Chapter XII, have been overcome, progress in this direction will continue. Agricultural banks would have an opportunity in financing the owners of large estates; an outstanding example of success by such a bank is Dawsons Bank which has been described in paragraph 81, and referred to in this chapter. But these will never be able to deal with small peasant proprietors individually, although they might finance co-operative societies in the absence of district co-operative banks.

176. The demand for land-mortgage banks to facilitate the provision of crop-loans is due to a misunderstanding of the object of those banks, which is really the provision of long-term credit. Such a demand was made while this chapter was being written. The editorial page of the Burma Agricultural Society's journal,* included remarks to the effect of the following:—

Much land in Pegu district will go uncultivated this year because tenants cannot get advances from their landlords who in turn are unable to secure loans from Chettiers even on mortgage of their lands. This is one of the arguments for the establishment of land-mortgage banks in Burma, and unless Government acts promptly we are afraid there will be a serious loss to provincial revenues in 1931-32.

In fact the alleged contraction of credit is not a matter for land mortgage banks at all; it is not long-term loans that are wanted in

* *The Burma Agricultural News* Volume I, No. 2 (May 1930). One member of our committee, Professor Jevons, was joint editor of this journal. We do not know whether these remarks had his approval or not; he left Burma on his retirement before they came to our notice.

the circumstances described, but crop-loans, for which the cumbrous machinery of land-mortgage banks is unsuited. There is however no doubt that a great deal of the popularity of the proposal to form land-mortgage banks has been due to the mistaken supposition that they would relieve landlords of any need to provide current finance for their tenants and would let those landlords who now provide that finance from their own capital invest in more land instead. Cheaper loans to tenants would also benefit the landlords by increasing rents. The Royal Agricultural Commission of 1926-28 pointed out that the provision of short-term credit is more useful than that of long-term credit.*

177 The most useful immediate measures for the improvement of agricultural finance are the improvement of agricultural technique and the improvement and extension of the co-operative system. Improved seed and cattle, the use of manure, improved implements and methods of working, all promise a more prosperous agriculture, more easily able to pay for its finance and consequently getting it more cheaply because with less risk. The use of improved seed implies establishing more of the seed-farms already at work, and organization round about each farm to enable the users of improved seed to collect their harvests into a uniform consignment for which the additional value of the improved grain can be obtained, as it cannot be when the improved grain is mixed by the buyer with inferior kinds.† The Agricultural Department is working on these lines, and co-operative societies are needed to furnish the means of making these improvements. Behind these developments is the need for education and for all measures to improve the general standard of health and physical efficiency ; in Chapter XIX this question will be taken up again. The principal financial problem is the high rate of interest that prevails, and in Chapters XII and XIX attempts will be made to show how the agriculturists can be enabled through their co-operative societies to solve this by drawing upon the general credit supply to a greater extent. Meanwhile the study of the question of an "agricultural charge" should be taken up as recommended in paragraph 403.

178. For the improvement of the lives of the large and growing number of tenants something more than all this is necessary. It is inevitable, so long as rents are determined principally by competition, that every increase of profit obtained by improved finance or in any other way will be taken as an increase of rent. Measures to increase the bargaining strength of tenants should be taken before this increment is transferred entirely to the landlords; it will be much more difficult for tenants to recover an equitable share of it after it has once been given up. A suggestion made with this purpose in view eleven years

* See the Note at the end of this chapter, on the next page.

† See also paragraphs 239 and 249.

ago was the institution of trade-unions for tenants and the development of industries on a co-operative basis.* Other suggestions to protect tenants were made by Mr. T. Couper, I.C.S., in his report upon the condition of agricultural tenants and labourers, in 1924; these included compensation for improvements, special courts to ensure equitable treatment of tenants, and charges upon the crop for rent, wages of labourers and hire of cattle. We think the circumstances of tenants call urgently for some regulation as a preliminary measure for improving their financial facilities.

Note by the Chairman for Paragraph 176.—The following extract from the *Chase Economic Bulletin* for May 1930 issued by the Chase National Bank of New York (one of the largest American banks) shows that in the United States of America land-mortgage banks have even made the provision of short-term credit more difficult. The Bulletin first reached Burma while this report was in the press :—

It may be added that the well-meant efforts of the Federal Government to improve the condition of agriculture by multiplying the facilities of agricultural credit have had as a main result a great and excessive increase in the mortgage-debt of agriculture, without a commensurate increase in the productiveness of agriculture, and with a consequent narrowing of the margin of free income and the percentage margin of equity in land, on the basis of which the farmer could ask his banker for credit.

* Myaungmya District Settlement Report, 1916-19, page 101.

CHAPTER VI.—LONG-TERM CREDIT FOR AGRICULTURE.

179. **Explanation.**—At the beginning of Chapter V we explained what we understand by crop-loans ; the present chapter relates to all agricultural credit except crop-loans and credit for marketing crops. We sometimes mark off a part of such credit under the term intermediate credit when it is for a period of five years or less.

180. **General Account.**—No clear distinction exists in Burma between short-term and long-term credit, except as given by Government and by a few exceptional lenders such as Dawsons Bank and some of the co-operative credit societies. With other lenders the amount of a loan is generally taken to show whether it is a crop-loan for current expenses or not ; but no arrangements for the gradual repayment of a long-term loan are made, and such loans are in fact for indefinite terms. Most of the long-term loans have been taken either to buy land or to consolidate permanent indebtedness incurred in one or more of many ways ; some of these ways were described in Chapter IV.

181. Long-term loans are granted by some people in most of the classes who grant crop-loans, though naturally only by those who have considerable capital. In Lower Burma the lender is generally a Chettiar who allows the loan to go on as long as interest payments are not too irregular and the security remains sufficient. In other cases in Lower Burma and commonly in Upper Burma (where the Chettiars do only a small part of their total Burma business) the lender is often a Burman, and he may or may not be desirous of getting possession of the land for himself. Some of the loans represent improvements to land, such as clearing the original jungle and making embankments to keep floods out or channels to bring water in and dams to hold up water to feed those channels ; but these loans have generally been increased by loans for household or current cultivation expenses and by the accumulation of interest. Loans for buying any land which has already been cultivated must also consist largely of money to buy improvements. Generally all lenders follow the model of the Chettiars in granting long-term loans. Co-operative credit societies, ostensibly lending only up to four years and chiefly for crop-loans, have often in the past lent where there was no prospect of repayment in four years or less, so that really they were giving long-term loans ; a considerable amount has been lent on these conditions and is now irrecoverable, and accordingly such loans are no longer given. Where the lender is a Chettiar he finances the borrower's annual cultivation ; generally other lenders do the same.

182. The security for almost every long-term loan includes a mortgage of land, and the amount of the loan is commonly as much as 75 per cent of the value of the land. Burman lenders go up to 80 per cent. Sometimes this proportion is exceeded when the borrower has considerable other assets ; if he is of good reputation as a payer, it may be exceeded even when he has little more assets than his land, oxen and agricultural implements. But only about one loan in three given by Chettiars is entirely secured by the mortgage. Other loans by Chettiars and some by other lenders are secured by mortgage only up to about one-half of the value of the land, the remainder being given on a promissory-note. The most important advantages of this arrangement are that in case of default in payment of interest a suit can be brought on the promissory-note alone with smaller court-fees and lawyer's fees than would be incurred if the whole loan were secured by the mortgage, and that by this suit the lender can get an attachment of the land, subject of course to his own mortgage, and avoids the delay of six months that must come between the preliminary and final decree in a mortgage-suit. There is also a saving for the borrower of the stamp-fee upon the mortgage-deed, and the benefit for the lender of a rather higher rate of interest for the amount secured by the promissory-note. The disadvantage is that the borrower may have subsequently borrowed money from another lender on the same property and the second mortgagee's claim may defeat the claim on the promissory-note ; the Chettiar, however, prefers to take this risk. The risk can be avoided if the mortgage-bond is drawn up so as to secure a balance on a running account up to a certain limit. Advances on promissory-notes up to that limit would then be protected ; but, as this type of mortgage-bond must be stamped up to the maximum limit secured, it does not find favour with either rural borrowers or Chettiars. Dawsons Bank adopts this type of bond and by granting a lower rate of interest is successful in inducing its borrowers to pay the required stamp-duty. The practice of advancing a fixed sum of money on a mortgage-bond is subject to another disadvantage. The borrower, in a good year may reduce the amount of the principal but in a bad year the principal due might easily attain to or exceed its former dimensions. As the practice is to make further advances on promissory-notes there is thus a tendency for the unsecured debt to grow larger while the secured debt is diminished.

183. Mortgage-deeds are always expressed briefly and in simple terms, following a common form. In Lower Burma the mortgage for a long-term loan is generally a simple mortgage, and it is always so when a Chettiar is the lender. Usufructuary mortgages are rare in Lower Burma ; generally the parties to them are colonists having a more recent connection with Upper Burma than most of their neighbours. In Upper Burma the mortgage may be a simple mortgage or a

usufructuary mortgage ; in the latter case the borrower may work the land as a tenant, but only at the will of the mortgagee, not as of right. In any case a loan on a usufructuary mortgage is not strictly a long-term agricultural loan, but rather a sale with a right by the vendor of the land to redeem it. There is in practical life, apart from legal forms and theory, little distinction between a usufructuary mortgage and a conditional sale. A considerable number of conditional sales have been made in Lower Burma to non-Chettiar lenders (rarely, if at all to Chettiars) when these have enforced their security, and the practice seems to be growing. In some cases the conditional sale is the first transaction. But as a rule the condition has been expressed orally while the document has been expressed to effect an unconditional sale ; many borrowers, having the Burmese tradition of usufructuary mortgages with rights to buy back, executed such deeds of sale without knowing that under British law, the oral agreement was useless to them. In most of these cases however the circumstances were such that a sale was inevitable ; the oral condition was chiefly a polite fiction that softened for the borrower the asperity of a demand for the surrender of his land. At the beginning the promise of re-sale was probably often sincere ; but if the land got transferred again there would of course be difficulty, and when land-values increased rapidly new thoughts arose.

184. For loans by Chettiars the ordinary rate of interest is 1'25 to 1'75 per cent, generally in the lower half of this range. Other lenders charge the same rates as a rule, because with land to offer as security the borrower can find a Chettiar to lend to him and will not pay more.

185. Although the loans are intended to be long-term loans and the lender is aware that the borrower will not be able to repay from his own resources except after a long-term of years, the documents always make the loan repayable on demand. Borrowers raise no objection to signing such documents although they may be legally liable to pay if suddenly called upon to do so. There is an understanding that interest is payable annually within about a month after harvest, and that the loan will not be recalled if it is so paid. With Chettiars however this understanding does not extend to the case of a change of agents or of financial difficulty of the lender ; recalls under these circumstances are discussed further in paragraph 537. Generally too loans are not recalled at once even if the interest does fall into default. The usual plan, if interest for any year is not paid within six months after the harvest, is to require a promissory note payable on demand to be executed for it ; in some places a year is allowed, in some only two or three months. Borrowers are always willing, of course, to sign such a note to avoid recall of the loan. If either the total debt grows so large that the lender is doubtful of his security, or a second mortgage is given on the land, the lender recalls the loan.

186. We have already remarked that neither Chettians nor any other lenders except Dawsons Bank make any stipulations for repayment by annual instalments. Dawsons Bank found annual equated instalments of principal and interest together unpopular, and it now obtains repayment by instalments fixed in general accordance with an agreed plan but subject to modification each year according to the outturn and the market-price of paddy and other circumstances. Lenders readily accept instalments of the principal money tendered with the interest after the sale of a harvest ; but most borrowers do not bother them very much in this way.

187. **Long-term Loans by Government.**—Under the Land Improvement Loans Act, 1883, Government grants long-term loans to agriculturists at ten per cent per annum, with repayment on a basis of annual equated payments for periods which may extend up to 35 years

Year.	Outstanding at beginning.	Issued in the year.	Total.
1921-2 ...	66	26	92
2-3 ...	81	61	142
3-4 ...	126	247	373
4-5 ...	347	21	368
5-6 ...	334	20	355
6-7 ...	271	22	203
7-8 ...	252	22	274
8-9 ...	231	17	248

but are generally restricted to twenty years or less. Until 1926 the rate of interest was 6·25 per cent. The marginal table shows (in whole thousands of rupees) the amounts lent and outstanding for some years back.

The large increase in 1923 was due to an exceptional loan of Rs. 220,000 to construct a bund in Akyab district to keep out the sea. Apart from this the loans are trifling in proportion to the size of the country ; the total amount issued in an ordinary year being only about Rs. 20,000. In Lower Burma in June 1929, apart from Akyab district, only the Insein district with Rs. 1,700 outstanding and the Prome district with Rs. 754 outstanding had any loans under the Act besides Hanthawaddy district with Rs. 35,273 outstanding *. The loans in fact are not really popular.

188. Land Improvement Rule 13A provides for one-half the cost of improvements, which, though not large enough to be made by Government, are beyond the scope of a single cultivator or a small group, to be provided by grants-in-aid and one-half by loans under this act ; but the scheme has failed to attract borrowers because it makes no provision for the maintenance of the improvements and because repayments by a large number of joint borrowers involve difficulties.

* These outstandings relate to the 30th June 1929. Outstandings are least at this season of the year.

189. It is commonly said that township officers put applicants for loans into a dilemma by telling those whose lands are not mortgaged that they can easily get credit elsewhere, and telling those whose lands are mortgaged that the security is therefore insufficient. There is probably some truth in this, the real trouble being that the township officers do not care to apply an act and rules which they do not understand. In fact the loans are as unpopular with township officers as with the public. Township officers have every excuse for failing to understand the act and rules. Burmese translations of acts and rules are generally avoided by officers who know English, but the rules under this act are badly expressed even in English for readers whose acquaintance with that language is imperfect. There is moreover no explanation of the policy of Government in drafting the rules on one important point ; Rule 14 states explicitly that " in calculating the borrower's interest incumbrances shall be deducted " although Section 7 of the act provides for mortgages under the act to take priority of claim over earlier mortgages. The justification of prior claim is afforded by the increase which the improvement causes in the value of the land ; after satisfying the claim for the improvement-loan the earlier mortgagee ought still to have even better security than before the improvement. The same privilege is given in England to loans granted by the Lands Improvement Company, which works with private capital and without State guarantee and in 1853 to 1923 lent 13 millions sterling (equal to about 175 millions of rupees) As loans for land-improvement are often the best means to get a landowner out of debt, it seems accordingly to be a mistake to exclude mortgaged land from the benefit of the act. The rights under existing mortgages would be sufficiently safe-guarded by the notices under Section 5 of the act, one of which is required by Rule 5 to be served upon each mortgagee, if somewhat better arrangements were made to ensure service of the notice and publication in such a way that the notice will really become public knowledge.

190. The rules are also defective in directing that the amount of an encumbrance is to be deducted from the value of the land ; if the encumbrance is to be reckoned at all, its amount should be deducted from the half-value of the land to determine the maximum loan that may be granted. There is confusion too for persons not well acquainted with English in the use of the word *interest* with the two meanings of a payment for the use of another person's money and a right in a piece of land ; the confusion of these two meanings is naturally increased when the phrase " borrower's interest " is used. Such words as *moiety* and such terms as *cover for a loan* should also be avoided in drafting rules to be applied by Burman officers. All unusual terms should be fully explained. There are other defects in the rules besides

191. We recommend that the rules should be redrafted and should be expressed in language that every township officer can understand, and that the policy on which the rules are based should be fully explained in the departmental directions. When the rules have been put into better order fresh efforts should be made to make the facilities for loans known to the people ; it must be a long time before banks to grant long-term loans can be established in all districts.

192. **Need for Land-mortgage Banks.**—The Land Improvement Loans Act cannot be a complete solution of the problem of long-term credit for agriculture ; only a small proportion of the credit needed is for future improvements. Most long-term loans are necessarily for consolidating existing indebtedness or for buying land already improved in the sense of being under regular cultivation. Even in the United States of America, where so much machinery and fertilisers are used in agriculture and loans are required to purchase them, 75 per cent of the loans of the Federal Land Banks are for clearing off indebtedness and another 10 per cent are for buying land. An individual lender finds it difficult to give such long credit as is required ; even if he is willing and able to do this his death may lead to the recall of loans. It is impossible for the commercial banks to lock up their funds in long-term loans on such a scale as would be necessary to furnish a considerable portion of the long-term credit required. Another consideration is that, apart from Dawsons Bank, which is really an agricultural bank principally, the existing banks have no branches except in the ports and at Mandalay and Myingyan ; thus they have no contact with agricultural borrowers and no simple means of recovering loans that fall into default. We shall propose later the opening of more banks in Burma ; but, as the besetting danger of the earliest banks in most countries has been the failure to keep their funds sufficiently liquid, nothing should be done to encourage newly established banks in rural centres to grant long-term loans to an extent which is large in proportion to their public liabilities. The amount they could safely lend in long-term loans would in any case be insufficient to meet the need for them. Intermediate loans can be granted by a bank which derives its working capital largely from fixed deposits repayable only after some years ; but even such a bank unless it has a total of capital and reserves which is large in proportion to its public liabilities, must carefully restrict itself in granting loans for such periods as ten years or more, as it can get little money on deposit for a longer term than five years. The work therefore requires land-mortgage banks specially organised to obtain working-capital by debentures, so that they can hold the capital for long periods without risk of being required to pay it back.

193. **Joint-stock Land-mortgage Banks.**—Joint-stock land-mortgage banks have succeeded in many countries in supplying long-term credit to substantial farmers, and are needed to do this work in

Burma. But joint-stock land-mortgage banks have nowhere succeeded in dealing with small peasant proprietors. Sooner or later they either confine their dealings to the more substantial classes or change their character altogether. The great example of joint-stock mortgage-banks is the *Crédit Foncier de France* which has only a small proportion of its loans secured upon agricultural land and even those loans are held by large proprietors; more than half its loans are secured upon urban property in Paris alone. While therefore we should like to see well-planned joint-stock land-mortgage banks developed for the benefit of the larger landowners, we must look for some other organisation to suit the needs and win the support of the small-scale cultivators.

194. Co-operative Land-mortgage Banks.—The only type of mortgage-bank which seems likely to lend safely to peasant proprietors is a co-operative bank working amongst people who appreciate the principles of co-operation; only such a bank under such conditions can bring the moral pressure of neighbours to bear upon defaulters. But this principle soon brings us to a dilemma as to the extent of country in which a bank should operate. On the one hand the bank must restrict its lending operations to a region in which, with the existing means of communication, it can have sufficiently intimate contact with its borrowers and preserve its co-operative character; on the other hand only those types of bank can hope to lend at all which are able to attract loans to themselves at reasonable rates of interest. The problem must not be envisaged as requiring the establishment of a few banks in odd places, but as requiring the provision of banks to work throughout a large part of the country. But numerous banks competing for capital will force up its price, while banks remote from Rangoon and in the poorer districts will probably get no capital at all at rates allowing them to be of service to local cultivators. Evidently neither village-banks nor even township-banks can be expected to succeed in collecting capital if a number of them exist. Indeed it seems necessary to have a bank large enough to attract capital from outside Burma, that is to say one bank for the whole country. But this will fail to have the necessary contact with borrowers and to win their support. A solution of the problem has been drawn up in Burma in which a number of regional banks with a co-operative constitution are federated into one body with mutual support for the purpose of raising capital, while each bank confines itself to a particular region of the country for lending, and the regions of different banks do not overlap. The banks were intended to confine themselves to long-term loans, and to have working beside them a vigorous co-operative credit system giving short term loans. As the Co-operative Societies Act was not found suitable as a basis for this system a special bill was drafted.

195. The Royal Commission on Agriculture in India criticised the the draft bill and expressed disapproval, thinking that the draft bill was too elaborate, and maintaining that the Co-operative Societies Act makes all necessary provision for land-mortgage banks. The first of these objections appears to have been due to a misunderstanding. It was intended that the system contemplated in the bill should be built up slowly from small beginnings in two districts, gradually extending to others; but owing probably to an omission to supply it with certain explanations of the scheme which had been prepared for it, the Royal Commission imagined a great unwieldy system was to be brought into action over a large part of the country at once. The other mistake related to the question of having special legislation; interest in it is not confined to a study of the Burma scheme, but is quite general.

196. **Special Legislation for Co-operative Land-mortgage Banks.**—The Royal Commission's remarks upon land-mortgage banks began in Article 381 of its report by showing that "land-mortgage business can be carried on by (co-operative) societies registered under the existing acts." The Commission then argued in Article 382 that this showed that long-term credit could be organised under these acts. In stating this the Commission confused long-term credit with short-term credit secured by mortgages of land, and its conclusion is not supported by its arguments. Moreover the Commission showed (in the first two paragraphs of its Article 381) that the provisions of the existing co-operative societies acts relating to land-mortgage credit were inserted in the original Co-operative Credit Societies Act of 1904 grudgingly, and that such credit is not suitable for the co-operative societies organised for short-term credit which were contemplated by that act. Thus although in Article 382 the Commission advised against attempting to draft a new bill specially for long-term credit, it appears from the Commission's own remarks that the existing co-operative societies acts (which in the sections now relevant follow closely the original act) would be even less likely to suit land-mortgage banks designed for long-term credit than a new law framed with proper care. The Commission stated also in the first sentence of its Article 382 that it had no evidence of the need for special legislation; but this statement was not correct. The questionnaire issued by the Commission did not raise the point at all; but questions on the matter were asked orally, and in Madras the Commission was told that special legislation is necessary.* Also Mr. Mehta, the manager of the Bombay Provincial Co-operative Bank, told the Commission† that long-term credit is of too responsible and complicated a nature for ordinary credit societies or even for a central co-operative bank. That alone would suggest that the law made for such societies and banks would probably

* Madras evidence, page 346, question 6 b and page 375, questions 13061-68.

† Bombay evidence, Part II, page 105; also page 120, questions 43696-99.

not be suited to land-mortgage banks, and that the necessary law would be more complex. But Mr. Mehta continued by saying that the board of his bank thought the land-mortgage credit system should be modelled on the Federal Farm Loan System of the United States of America. This is particularly interesting evidence in view of the evident reliance of the Commission in Article 383 upon the Bombay views.* The Commission could have found further evidence in the report of the special committee which enquired into the condition of the co-operative system in Madras in 1927-28. That committee said (page 68 of its report) that if the transactions of land-mortgage banks grow to large proportions special legislation will undoubtedly be necessary ; upon this the obvious comment is that unless those transactions do assume large proportions the banks will not have enough prestige to attract even enough working capital to work on a small scale, and that in any case a small scale will not solve the problem of providing the long-term credit required for the whole country. Thus evidence of the need for special legislation was actually before the Commission. It is true that several witnesses advocated the establishment of land-mortgage banks on a co-operative basis ; but this is not at all the same thing as relying upon the existing co-operative societies acts, although the Royal Commission appears to have overlooked the distinction. In short the Royal Commission's whole report on this point appears to be seriously in error.

197. We think the antecedent probabilities are all inclined to the unsuitability of the existing co-operative societies acts to land-mortgage banks. We observe too that the co-operative societies acts give Government special powers of recovering any loans it makes to co-operative societies. Consequently if Government subscribes to debentures (as most people agree will be necessary at the beginning) private persons, fearing that Government with its special facilities to get information will in fact have an advantage over other debenture-holders, will refuse to subscribe ; thus the co-operative societies acts need modification in this particular to become suitable for land-mortgage banks. Again special powers of recovery of loans are commonly thought necessary for land-mortgage banks, and there is admittedly a danger lest small co-operative land-mortgage banks should fail to enforce recoveries ; supervision of these matters requires a strong central organisation with large powers of control and capable management. So too the federation of banks which, as we have pointed out above, must collect the working-capital, must have considerable powers of coercion over the member-banks so that it may sustain its responsibility to its debenture-holders. Many people, especially in foreign countries, will refuse to buy the debentures if fundamental matters in the constitution of the system rest upon rules

* Another piece of evidence was given in Bombay opposing special legislation ; but it was admittedly based on an assumption which was in fact erroneous. See Bombay evidence, Part I, page 208, questions 4984-5.

or bye-laws make under an act, although they might be willing to buy if the same provisions were made by the act itself; they regard both bye-laws and rules as too unstable for a long-term security, and as requiring an investor to watch too minutely, because changes in them have not the same publicity as changes in an act of the legislature. All these considerations (and others which might be brought forward) point to special provisions in the co-operative societies act, in other words to special legislation; and in fact they point to provisions so extensive as to over-balance that act and make it desirable to have an entirely separate act. We do not wish to assert that a few small co-operative land-mortgage banks cannot be established without special legislation; we do think that special legislation is needed if such banks are to be established on a scale that can attack the problem of long-term credit for a large number of agriculturists throughout the country, and that unless a national system is organised the banks must wither for lack of working capital. Such legislation will not be perfect in its first form; indeed there is no such thing as perfection for it, because, however well it may suit its purpose at one time, it will need adaptation to changing circumstances. But we must protest against the assertion of the Royal Commission that a law, adapted to the land-law and the people and circumstances of a particular province, cannot be devised so that it will suit the land-mortgage banks of that province better than a co-operative societies act framed for short-term credit and with no thought of land-mortgage banks and in fact providing only grudgingly for mortgage security to be taken.

198. Burma Scheme not for a State Bank.—We are agreed that a scheme for State mortgages would be unsound. Although the contrary has been widely stated, the bill drafted in Burma did not aim at such a scheme. It aimed at establishing a statutory corporation acting as an independent legal entity free from direct financial and administrative control; this would tend to diminish the influence of political considerations which are likely to affect the operations of a government department. The view was taken moreover that it might be more difficult for Government to enforce recovery of loans on a large scale if it were itself the lender than if the lender were an autonomous body. Further the banks working under this corporation were to be of a co-operative character and to have large influence over the controlling Board through an advisory council, which would consist of representatives of the banks and would eventually take the place of the Board.

199. Present Position in Burma.—The present position in Burma is that the proposed plan for a national system has been put aside while experiments are made with two small independent banks.

As stated above there is no hope of solving the problem of long-term credit for the country on these lines ; but it is thought that useful experience can be gained with these banks, and in any case the proposed national plan was to be started, if at all, on the same small scale. In a few years, when experience with these experimental banks has been gained, the short-term co-operative system will have overcome its present difficulties and the whole problem can be re-considered under more advantageous conditions. The organisation of the two experimental banks was being worked out when the officer appointed to the duty was required to act as chairman to this committee ; as a consequence the work has had to be put aside till this committee's work is completed. Government has however provided a hundred-thousand rupees in the current budget for working capital of the experimental banks. It is understood that the banks are not to incur any liability in excess of Rs. 250,000 each before the whole problem has been reconsidered.

200. Long-term and Short-term Co-operative Credit.—

Some co-operators used to express a fear lest land-mortgage banks should destroy the co-operative credit system. In fact a co-operative long-term credit system can not possibly be worked without the co-existence of facilities for short-term credit, and it requires for its best results the provision of those facilities by a co-operative short-term credit system. Each system would be adapted to supplying its own particular kind of credit and unable to supply the other kind. A wisely managed long-term credit system would therefore endeavour to strengthen the short-term credit system as much as possible. —

201. Government Assistance.—

The larger Burma plan was formed on the view that Government's financial assistance should be used as little as possible. It was suggested that Government should supply a small amount of initial capital by way of a loan to be repaid in a long time, and that initially Government should give some sort of guarantee for the debentures, so that some start could be made in spite of the fact that probably no debentures could be sold in Burma without such a guarantee. The intention was to aim at establishing as soon as possible such confidence that the large money-markets of the world outside India could be drawn upon. The reason for this was that Burma is an undeveloped country requiring for its proper development a larger amount of capital than it could possibly supply itself, while land-mortgage banks in India will presumably be able to use all the capital in India that is available for such banks. Consequently if an attempt were made to confine the banks to capital raised in Burma or, even in Burma and India, either it would fail or a high price would be paid and other developments of Burma starved.

202. A majority of the present committee, consisting of the four Burmese members and Professor Jevons, is of the opinion that Government should do more in the way of direct financial help. These members think that Government should, not merely on a small scale initially, but on a considerable scale, guarantee the interest on debentures either perpetually or for a period of thirty years, provided that trustees for the debenture-holders are appointed and a trust-deed executed. This assistance should be given both to the banks with a co-operative constitution and to joint-stock banks; but a company receiving such assistance should work as a public utility company and either limit its dividend to 10 per cent per annum or agree not to charge more than certain low rates of interest. Professor Jevons suggests that Government could reduce its liability for the guarantee by enacting that if the bank failed the interest should become automatically a charge on the lands mortgaged to the bank, apportioned according to the relative rates of land-revenue on different lands, and collected with the land-revenue.

*Minority view.**—The Chairman and Mr. Dawson dissent from this view, holding that the debentures should not normally be guaranteed by Government, and that even where a guarantee is given to small initial issues it should be conditional upon the interest estimated to be saved through the guarantee being credited to the bank's reserve fund.

203. Professor Jevons desires mention to be made also of his suggestion that in imposing a cess upon exported rice for improvement of the quality of Burma rice, the cess should be made large enough to provide a staff to assist in the re-organisation of marketing and to provide a fund on which Government could draw in case it had to pay under its guarantee of land-mortgage bank debentures. Stating that the Indian Central Cotton Committee has nearly three-hundred-thousand rupees invested in Government paper, he says that the fund could be invested in debentures of land-mortgage banks or placed on fixed deposit with such banks. The remaining members of the committee dissociate themselves from this suggestion to increase the cess upon all cultivators and landowners for the benefit of a special class of borrowers.

204. **Land-mortgage Bank Debentures as Trustee Securities.**—The Burmese members of the committee and Professor Jevons also approve of the debentures of all land-mortgage banks (whether joint stock or co-operative) being declared suitable for the investment of trust-moneys.

*Minority view.**—Mr. Dawson and the Chairman have no objection to debentures guaranteed by the Government of Burma as to principal and interest being eligible for investment by trustees. But they think

* Our Chettiar member, the Diwan Bahadur A. M. M. Murugappa Chettiar, was not present at the discussion of this point.

there should normally be no guarantee, and that debentures without a guarantee should not be made eligible for investment by trustees until the stability of the issuing bank has been so proved by experience that the general investing public desires that the privilege should be given. They admit that the privilege would help land-mortgage banks ; but they think a wide view of the general welfare of the country forbids the granting of the privilege except under the circumstances described. It is true (these members say) that the general public is inarticulate and may never ask for the privilege to be conferred ; but the banks themselves should take the initiative, and, if their debentures are really popular, solicitors and others looking for profitable investments for trust-moneys will be likely to spur them on to do so.

205. Income-tax on Land-mortgage Bank Debentures.

—The four Burmese members of the committee agree that the interest on debentures of co-operative land-mortgage banks should be exempted from income-tax but that debentures issued by joint-stock land-mortgage banks should be taxed.

*Minority view.**—Mr. Dawson and the Chairman differ from this view, and think that the interest should be liable to income-tax, whether the debentures are issued by co-operative banks or by joint-stock banks.

Further discussion on the question with regard to co-operative banks will be found in paragraph 414.

206. **Function of Land-mortgage Banks.**—The proper function of a land-mortgage bank is to grant long-term credit on proper security for suitable purposes, for which short-term or intermediate credit is unsuited. The error of asking for the establishment of land-mortgage banks to furnish crop-loans has already been discussed in paragraph 176. Other popular views were expressed by the London "Economist" of the 12th April 1930 as follows : "Enthusiasm for mortgage banks is general in India. They are looked upon by insolvent debtors as a way of escape from their misfortunes, and by political theorists as a sign of a progressive nation." A good deal of the popularity of the idea of land-mortgage banks in Burma seems to be due to understanding by a bank an institution which lends money out at low rates of interest and does not press for any payments. No bank, properly so called, can do anything to save an insolvent. There may be other means by which Government or a charity fund can come to his rescue ; but a bank is an institution which enables a number of people to use other people's money, and the bank's responsibility to the owners of the money forbids it to lend without good assurance of proper repayment. Even with this limitation there is still a useful sphere for land-mortgage banks, and we hope to see the experiments, which our work interrupted, duly inaugurated during the current year.

* Our Chettiar member, the Diwan Bahadur A. M. M. Murugappa Chettiar, and Professor Jevons were absent from the discussion of paragraph 205.

207. Apart from their primary function of granting long-term credit to agriculturists land-mortgage banks may be expected to serve the equally useful purpose of providing an investment for savings. It may be possible by popularising the debentures of these banks to weaken the tendency shown in paragraph 48 for agricultural land to pass into the hands of non-agriculturists, especially as the debentures will have so close an association with agricultural land which is the traditional safe investment. If the debentures can be sold they may help in leading the country on from investment in government securities to investment in commercial and industrial undertakings.*

208. **State-land in Upper Burma.**—In Upper Burma the occupier of State land has not a permanent heritable and transferable right of use and occupancy in his land, and is accordingly hampered in obtaining long-term credit. Continued occupation without disturbance is assured for the occupying agriculturist by the declared policy of Government ; but a non-agriculturist mortgagee taking over the land would not have such an assurance. For this reason long-term credit can not be obtained by mortgaging such land. Proposals have been made to confer rights upon occupiers of State land on the same plan as the landholder's right of Lower Burma ; this would certainly remove the difficulty. On the other hand history shows that such a measure always removes the difficulty too far. Whenever a peasantry has been given a permanent heritable and transferable title in its land it has plunged deeply into debt. This happened, for example, in Russia and even in frugal Prussia ; to say that it would certainly happen in Upper Burma is to cast no aspersion upon the Burman character. We think a way should be sought to give the equivalent of the title held in non-State land through a system of voluntary purchase by instalments over a long period, say twenty-five or fifty years ; the Land Improvement Loans Act furnishes lines that could be followed and land-mortgage banks might help. At the same time future increments of value, apart from improvements made by the occupier, should be reserved to the State. The combination of these two measures would tend to prevent the abuse of the new credit-power obtained by the occupiers. The proceeds of the sales could be used for furthering long-term credit and for additional research-work for Upper Burma's agriculture.

* See also paragraph 645.

CHAPTER VII.—CREDIT FOR MARKETING AGRICULTURAL PRODUCE.

209. **Marketing of Paddy.**—Paddy is usually bought on the threshing-floor by a local man who is known as a jungle-broker or spy, and may have almost any occupation at other times of the year: He uses no capital of his own ; he is merely an agent of a peripatetic, dealer who lives in Rangoon Bassein or Monlmein, or some trading or milling centre on the railway or a river, and he gets a commission of Re. 1 to Rs. 2 on each 100 baskets of which he arranges the purchase. His business is to go round to the threshing-floors of his locality inspecting and, when satisfied, offering to buy the paddy and telling the cultivators what price his principal is paying ; if a cultivator agrees to negotiate he takes a sample from the heap on the threshing-floor to show his principal. He also when necessary finds transport for paddy which is bought, and in all matters he gives his principal the benefit of his local knowledge and personal acquaintance with the cultivators. He should further see that no adulteration takes place before his principal gets delivery.

210. The principal may be a local dealer buying to store for a rise, or a local miller who will mill the paddy at once or later according to his judgment of the rice-market, or a so-called broker of one of the big mills in Rangoon and one or two other centres. These last are not really brokers charging their principals the price they pay and taking a commission, but are dealers who, having undertaken to supply to a particular broker at a particular mill within a certain period (generally four to six weeks) a certain amount of paddy at a certain price, keep the difference between that price and the price they pay to the cultivator to pay expenses of transport and leave them a trading profit. The financing of these dealers is described later in this chapter.

211. The price of paddy in most parts follows the fluctuations of the Rangoon price, which is stated in terms of a nine-gallon basket and is subject to an allowance of $2\frac{1}{2}$ per cent for each pound above 46 pounds in the average weight of a number of sample baskets of the paddy which are weighed during the measurement of the consignment. Deductions from the observed average weight are made by the Rangoon miller for any paddy which has much dead grain or is for any reason (such as variation in size) specially liable to break in the milling. On the other hand if large consignments of uniform paddy, not liable to break in milling, are brought, an addition is made by some mills. In recent years the millers have introduced the custom of cleaning each basket of paddy which is to be weighed, so as to free it from foreign matter ; the paddy is measured before the cleaning and weighed after

it. In calculating the allowance the proper percentage is first added to the measured number of baskets to determine the equivalent of the consignment in standard baskets. The value is then calculated by applying the price to this equivalent. All commissions, cooly hire, etc. are paid however according to the actual measurement without the addition of weight-allowance.

212. The transaction on the threshing floor is in terms of baskets, which may be slightly above or below nine gallons, and has no weight-allowance. The cultivators are not usually aware of either the current price in Rangoon or the relationship to that price of the corresponding price at their threshing-floors after allowing for the different system of measurement and for the intermediate expenses. That relationship is not a fixed difference but varies as the market-price varies. But they know the ruling local price and they know very quickly whenever the Rangoon price rises or falls ; and there is generally enough competition amongst buyers to give them a fair deal even in somewhat remote places. In some parts the dealer commonly takes a small balance and measure (e.g. a cigarette-tin or milk-tin) round with him and receives from the jungle-broker a small sample of paddy from each threshing-floor whose owner is negotiating ; he weighs a measureful of the sample against rupees and gets a fair notion of the weight-allowance the particular sample would get in Rangoon ; then after inspection of the character and quality of the paddy he instructs the jungle-broker what price to offer. Sometimes the dealer, in order to guide his judgment, rubs down a little of the grain to remove the husk and thus see a little of how it will stand milling. In other parts the dealer relies upon local experience and his judgment of the grain and his knowledge of what other buyers are paying. If the jungle-broker arranges a purchase the real buyer generally goes to the threshing-floor to take delivery and make payment.

213. There is no trouble as a rule over the size of the basket to be used in measuring. There is a recognised basket in the village and possibly two or three of slightly different capacities described as equal to a certain number of milk-tins or lichi tins ; the dealer may have another basket of his own ; but the particular basket to be used is one of the terms of the bargain, and although there may be higgling about it when arranging the price there is never doubt or quarrel as to which is to be used. A matter more susceptible to a difference of opinion is the way the paddy is poured into the measure ; by his way of pouring a skilful person can make two pounds difference in the amount measured as a basketful. Quarrels over this are however infrequent ; the customary way of pouring is not often departed from.

214. The purchaser pays as a rule for transport and for measuring. In the delta paddy may be put straight from the threshing-floor into a barge ; if a waterway admitting barges is not available sampans may be

needed, but the location of the threshing-floor is arranged to avoid this where possible. Sampans are often used, however, when the dealer intends to take the paddy to his own godown to store or to a local mill. Where conveyance is by land the paddy is carted to a railway-station or a mill or godown close by a railway-station, the cultivator who has sold it often taking part in this transportation and getting some of the pay for it.

215. In Rangoon the paddy is received at the mill by a broker, who thus becomes the second intermediate (apart from the jungle-broker) between the cultivator and the miller. There are 10 or 12 of such brokers at a large mill, and they all like to call themselves head-broker ; but they are in fact all on the same level. They are genuine brokers (though they may, as noted in paragraph 217, do some trading in addition) and they are generally persons of considerable wealth and influence. They introduce dealers to the manager of the mill and assist in arranging their contracts for the supply of paddy.

216. The porters who carry the paddy into the mill are paid by the miller. The measuring and weighing staff at the mill, including the measuring men who strike the level of the measures and keep the tally, is also provided by the miller, who deducts eight annas per 100 measured baskets from the price on this account. Of this eight annas, six are paid to the measuring men while two are paid to the broker ; formerly these two annas were paid to the clerks, but that was changed some years ago. The broker also receives Rs. 3-14-0 per 100 measured baskets as his commission, thus getting Rs. 4 per 100 measured baskets altogether. Formerly the broker received a commission of Rs. 3 paid as the deliveries proceeded and a bonus at the end of the season. The commission was nominally Rs. 2-8-0 ; but to this were added six annas under the name of sampan-hire and the two annas out of the measuring hire as explained above. The origin of sampan-hire was in the conditions of many years ago when much "market paddy" was bought, market paddy being paddy brought to Rangoon by the owner (cultivator or local dealer) and offered by him to the mill-broker there. Brokers used to employ men in sampans to meet boats carrying market paddy and invite the paddy-owners to sell to them ; and the miller paid the broker six annas per 100 baskets to cover the cost of this. The payment still survives under the same name although the practice has been entirely given up. The bonus was generally two to four annas per 100 baskets if up to 50,000 baskets had been bought, with higher rates up to eight annas if larger quantities had been bought ; but this has been given up in recent years at most mills.

217. The broker does not get all his paddy from dealers ; but arranges some purchases himself with the aid of employees and sub-brokers and from dealers who have no contract with the miller ; he takes in such cases both the brokerage and any profit he can make.

218. Millers endeavour to arrange their milling so as to be able to keep a separate account of the rate of yield of, whole rice and broken rice from the paddy supplied through each broker. If the yield falls too low they are warned to supervise the weighing and measuring staff more closely. If the yield goes above the average they pay the broker a bonus, because otherwise he would forsake the mill and take his dealers away with him. The reduction of price for dead grain and liability to breakage has been mentioned already in paragraph 211.

219. The big millers in Rangoon Bassein and Moulmein are all European firms or companies. They export their rice to India, Ceylon, the Straits, the Dutch East Indies, China, Japan, Europe, Africa and America, and they make all their financial arrangements with the Imperial Bank of India and the exchange-banks. Large dealers usually make their contracts to supply paddy directly with the miller and take advances directly from him ; but each is associated with a particular broker to whom all his paddy is brought, so that he is said to measure under that broker's name. Sometimes the dealer's contract, with acknowledgement of the advance, is signed jointly by the dealer and his broker. The brokers also take advances from the millers for their own trading and for issue to dealers who measure under their names and have not made a direct contract with the miller ; these are usually the smaller dealers.

220. The foregoing description has been written with regard to Rangoon. But it holds good also for the large mills at Bassein and Moulmein. It is believed to hold good in its general lines for Akyab too, although the units of measurement there are different, but our information on Akyab is incomplete. For small millers at the ports the account given in the next paragraph for dealers and the millers outside the ports applies.

221. The dealers and millers outside the ports borrow as a rule from a Chettiar, who, if the dealer's probity and capacity are known to him, will generally lend freely on an on-demand without security, provided the dealer has property. If a person who has no considerable property proposes to buy paddy to store for a rise, the Chettiar lends on the security of the paddy itself up to two-thirds or three-quarters of the value of the paddy to be bought, provided the Chettiar has his own durwan watching and his own lock on the godown. A variation of this is the case of a dealer who receives a considerable amount of paddy as rent for his land but has already such a mortgage on his land that it is not useful as security for further advances ; to a dealer whose only security is paddy already owned a Chettiar usually advances up to twice the value of that paddy, taking as security both the paddy previously owned and the paddy bought with the advance, and keeping his own durwan and lock at the godown. Chettiars do not like to lend on the security of a paddy-mill, but they accept a mill as additional security with land.

A miller outside Rangoon and the other ports generally possesses a stretch of paddy-land which serves as security for advances and also yields him some paddy as rent and provides other paddy which he can buy at competitive prices ; in fact with a small mill the possession of some paddy land is almost a necessity *

222. There is an exception to all the above in the larger part of the Prome District where a particular kind of paddy is grown for certain special export markets and is all milled locally. There the paddy is taken by the cultivators to mills on the railway and sold directly to the millers by weight without reference to volume. The millers sell some of the rice for local consumption, but most is sold to dealers in Rangoon who export it.

223. The custom in Prome District of selling all paddy by weight might be thought to lend support to the view that all paddy should be sold by weight at all the milling centres. But this is not possible while a miscellany of varieties of paddy must be provided for. As the specific gravity of different paddies is not directly proportional to the rice-content, there would have to be an allowance according to the buyer's judgment in the same way as an allowance is now made for dead grain. The plan works in Prome because it applies only to one variety of paddy grown under fairly uniform conditions.

224. Another exception is found in the jungle-buyers employed by some Rangoon millers. Some of these are paid with commission, but most have a fixed salary. They stay at convenient centres and send out jungle-brokers with local knowledge and local connections to arrange sales to them. The jungle-broker occasionally brings in a sample of paddy, but more often brings in the whole consignment ; he is able because of his local connections to inspire enough confidence for this. The jungle-buyers arrange a price on the same basis as is used in Rangoon, namely a standard price with a weight allowance. The plan is new but is said to be working well. The jungle-brokers who work for these buyers receive Rs. 2 per 100 standard baskets as commission.

225. Millers outside Rangoon have a certain advantage over Rangoon millers through measuring paddy in the rather larger baskets which are generally in local use. The difference may be 5 per cent of the one basket. Since all brokerage, cooly hire, etc., is paid per 100 actual baskets this reduces the cost of many processes by about five per cent.

226. Some outsiders say the paddy trade is full of sharp and questionable practices and is the most dishonest trade in the world. Partly this opinion is due to ignorance of the reasons for many of its complexities. But it must at least be conceded that there are in it a peculiarly large number of strange practices which are tolerated as ordinary business practice and countered by others. It is said there is less trickery nowadays than before ; for instance the custom of cleaning

* Further particulars are given in paragraphs 245, 296 and 319.

the sample baskets from which the average specific gravity is determined has finally defeated some practices of adulteration which have consequently begun to die out.

227. Marketing of Groundnut.—Groundnut is grown in the dry-zone districts of Upper Burma and to a small extent in Thayetmyo District and on sandy patches in Prome, Maubin and a few other Lower Burma districts. Outside the dry zone it is generally sold to local dealers who sell to retailers, and is often sold in small quantities direct to retailers. In the dry zone the ordinary yield is about 150,000 tons per annum and is steadily increasing in response to an increasing demand. In this area there are three principal classes who buy groundnut from its cultivators, namely small dealers, large dealers and oil-pressers. The small dealers collect groundnut from cultivators and cart it, either at once or after storing for a time, to a marketing centre where they sell to large dealers and oil-pressers either direct or through a broker. Sometimes these small dealers make advances to the cultivators before harvest. Some of them are themselves cultivators.

228. The oil-pressers and large dealers do business at important places on the Irrawaddy or on the railway, and they buy groundnut which is brought to those centres by cultivators or small dealers, chiefly the latter. These bring their groundnut in carts containing about nine-hundred to a thousand pounds weight to the compound of a broker who keeps a large compound for the purpose. The carts stand there for inspection by the buyer. The consignments which arrive on one day are sold on the next day; sellers do not wait for an improvement in the price. The price is paid at once, chiefly in currency notes. Brokerage at one per cent of the price is paid by the buyer, but the seller pays the cooly who measures the groundnut at the rate of four annas per cartload. The oil-pressers sell their oil all over Burma or send to Rangoon for export. The large dealers sell some groundnut to local pressers after storing for some time, and sell some to oil-pressers in Rangoon, who press chiefly for export, either at once or after storing for some time. Some of the large dealers are agents of the larger millers in Myingyan and Rangoon.

229. Local dealers and pressers borrow money for their business from Chettiers, Burmese or Chinese money-lenders or the Myingyan office of the Imperial Bank of India. Well-established people take advances on promissory-notes without security, others mortgage land, houses, mills or pledge jewellery. Interest on these advances varies from Rs. 1'25 to 2'50 per cent per mensem according to the security and financial position and reputation of the borrower.

230. Marketing of Tobacco.—Tobacco is grown to some extent in most districts, largely on sandbanks exposed by the Irrawaddy and Chindwin rivers in their low seasons and on areas which receive

an annual deposit of silt by floods. Generally it is bought by brokers at the houses of the cultivators, which may be only temporary tents established on a sandbank or may be of a more permanent character in regular villages. The buyers are dealers living in a town where the tobacco-trade for a considerable area is centred. In some places cultivators take their tobacco themselves to the marketing centre, and sell directly to the dealer or through a broker. In Lower Burma the cultivator sells his tobacco in May as soon as it is cured, so that he may not have the risk of keeping it through the rains. The dealers store it for three or four months in large cubical heaps in which great heat is developed by fermentation; the heaps have to be turned over at intervals. In Upper Burma also cultivators have their crop ready in May, and they commonly sell all their crop at once; if the early price is bad they wait for improvement, selling only as much as is necessary to meet pressing needs just after curing, and the remainder all at once. Some near Myingyan store their tobacco with brokers or traders living in that town, paying a rent for four months of one rupee for a unit of about 400 pounds weight. The price varies from Rs. 25 to Rs. 80 or Rs. 90 per 100 viss (360 pounds) according to quality. As usual the cultivators are paid cash, generally in currency notes of Rs. 10 or Rs. 5. The dealers in the tobacco centres generally dispose of their stocks from August onwards to traders in other parts and to exporters in Rangoon. The money needed to buy from the cultivators and hold the stocks till sale is borrowed as described above for the marketing of groundnut.

231. Marketing of Cotton.—The cotton of Burma is generally of short staple, and the ordinary yield varies from six thousand to nearly thirteen thousand tons. The Thayetmyo, Meiktila, Myingyan, Sagaing and Lower Chindwin Districts of the dry zone grow nearly the whole. Cultivators sell in their villages and sometimes at certain towns which are market centres; these towns include all township headquarters in the cotton area. Cotton is distinguished from other crops because there are no dealers who buy it and store it for sale later; the only buyers are the ginners and some small traders who collect cotton from neighbouring cultivators and sell to ginners. The special liability of cotton prices to change seems to be the fundamental reason for this; there are no proper cotton warehouses and nobody is willing to advance money on stored cotton at reasonable rates. Cotton cultivators are generally compelled by their financial condition to sell as soon as the crop is ready.

232. The small traders often give advance to the cultivators before harvest on condition that a certain amount will be sold to them at an agreed price. They sell their collections to ginners quickly, either directly or through brokers, carting them to the local market for the purpose.

233 Amongst the ginnerers two systems for buying cotton are in use. In both systems agents called brokers are employed ; but in one system, used only by the large ginnerers, these are really dealers financed by the ginnerers and working not for a commission but for a trading profit. Under this system the ginnerers advance money to the so-called brokers and make a contract with them for the supply at a certain price for a certain period not exceeding ten days. The advances are made on promissory-notes or on the security of land and houses, the amount and security depending of course upon the circumstances of the parties and upon the reputation earned by the broker in previous transactions. Some brokers go out to the villages and buy cotton from cultivators and traders there ; others employ agents to go out and arrange purchases completely as genuine brokers, or (like the jungle-brokers of the paddy trade) to find willing sellers with whom their principal can negotiate. The rate to be paid is fixed by agreement between the seller and the broker without reference to the broker's contract with the ginner, except of course the broker pays less than the ginner's price so as to get a profit. Part of the estimated value of the cotton is often paid at this time. The seller then arranges for carting the cotton to the mills where it is weighed. The total price being determined by the weighing, broker and seller go to the broker's house and there the broker pays the seller the balance due to him. The ginner of course keeps an account of the weight and value of cotton supplied to him by the broker, and makes payments when this value exceeds the advance he has given to the broker.

234. The other system is used by both large and small ginnerers and employs true brokers, who negotiate with the cultivators and village-traders, and bring any willing seller to the ginner, who thereupon makes an agreement to buy a certain weight of cotton. An advance up to a quarter of the price used to be given to the seller sometimes at this stage ; but such advances are now unusual. According to one custom the broker and the seller then return to the village, the broker carrying the money required to complete the transaction ; the cotton is weighed at the village and the balance of the price is then handed over. Another custom is that the seller agrees to bring the cotton to the mill and has it weighed and paid for there. Brokerage is paid by the buyer at one rupee per 100 viss of cotton (360 pounds).

235. The money needed to finance the marketing of cotton is provided as described above for groundnut.

236. Marketing of other Crops.—The marketing of most other crops is managed upon lines somewhat similar to those described above, except where the produce is perishable and is either collected by local retailers, or sent to local markets for sale, retail or to retailers, or is hawked in the neighbourhood.

237. Organisation of Markets for Paddy.—The difficulty in most suggestions for the organisation of markets for agricultural produce in Burma is the increased cost entailed by them for moving the produce. The most important crop is paddy, and the system of jungle-brokers and dealers which is described above appears to keep these charges very low. Both the jungle-brokers and the dealers are useful ; the former with their local knowledge are the links between the cultivators and the buyers who operate in a wide area, the latter carry the speculative risk. The brokers at the mills are useful links between the miller and the dealers.

238. Regulated markets to which cultivators would bring their paddy for sale, as is done with cotton in Berar, would force cultivators either to sell at whatever price they found for the day or to hire storage-space and incur the inevitable additional expense of living away from home while waiting on the spot for a favourable opportunity to sell. A possibility of improvement exists, we think, in development of sales by samples brought in by cultivators to a convenient centre where the present jungle-broker might become a commission-agent exhibiting the samples and arranging sales ; this could be combined with the system of collecting-stations which is already being tried by some millers and has been mentioned in paragraph 224. Joint-sales by members of co-operative societies have been tried at various times but have not been successful. In this connection we note that in Denmark, which has been the great model for co-operative sales of export produce, voluntary co-operation appears to be giving way to a national system in the pork and bacon trade ; while there are signs of moves in the same direction in the Irish milk trade and the Canadian wheat trade. Moreover the anxiety existing in Canada just now over the large wheat surplus still unmarketed causes hesitation in endeavouring to build up a co-operative system of marketing to its logical conclusion in a country where the general educational level and marketing skill of Canada do not exist.

239. At the present time the most useful line along which to strive to increase the price received by cultivators of paddy is the encouragement of uniformity in the grain. Even the worst red kinds are worth an extra five rupees per hundred baskets if the grain is uniform in certain special characters, of which ripeness, size and hardness are probably the most important. Reduction of the number of types grown would facilitate the pooling of harvests without loss of price of a consignment through the lack of uniformity for milling and use. At present superior grain is often available only in parcels of 500 or 1,000 baskets in one locality ; no advantage in milling can be obtained from these because such small parcels have to be mixed with other paddies. Societies for joint sale might eliminate the jungle-brokers or at least reduce their cost ; but the value of this to each individual cultivator would be small. The best opportunity for such societies is perhaps through

control over their members in the number of types grown, in the use of selected seed, and in the matter of mixing paddies and of adulteration with chaff, sand, cement-water, etc. With these improvements achieved they might go on to federations for grading the paddy and equalising the price received by all cultivators offering each grade, so that these would have not to gamble on the temporary rises and falls of the market. Meanwhile the first step is the increase in the supply of superior seed of a limited number of types. This, as we have already recorded in paragraphs, 36 and 46, is engaging the attention of the Agricultural Department.

240. Organisation of Markets for other Crops.—Regulated markets for other crops than paddy have also been studied. But there seems to be no possibility of success with such a market in increasing the price obtained by the cultivators for their produce unless it is immediately surrounded by an area largely concentrated upon the production of the crop sold in it. Such a market is not likely to succeed where the crop is cultivated in small and widely separated patches. In such a case either the cultivator would have to suffer the additional expenses of bringing his crop to a great central market, or the buyers of the central market would have to establish branches at numerous subsidiary centres and would pay a smaller price so as to recoup their outlay on these. The possibility of such markets being advantageous for cultivators of groundnut is being studied by the Agricultural Department.

241. An interesting experiment was started on the 23rd December 1929 by Mr. Odell (Deputy Director of Agriculture, Magwe) for marketing cotton in Thayetmyo District. He has arranged a travelling bazaar, including 20 to 25 shops which sell all household needs amongst them, and visiting each of three centres once a week. At first cultivators used the bazaar only as a convenient place for purchasing their town goods without the bother and expense of a journey to the towns; but they soon realised that they not only saved money on their purchases but also had in the bazaar a selling place for their produce. Paddy, cattle, cutch, beans and vegetables soon found their way into the bazaar from the surrounding villages. But cotton, which is the principal crop grown for money in the tract, has provided the largest turnover. Sales of cotton started in the fourth week and have continued; over eighty tons of kuppas passed through the bazaars in about six weeks, to say nothing of the quantities sold in the villages at a price fixed according to the price current in the bazaar. The bazaar-sellers have formed a committee to manage the bazaar, and have started weekly subscriptions to a fund for matters of general advantage. Thus although the bazaar is only three months old it is beginning to show signs of sturdy development, and it may possibly provide an improved method of

marketing cotton, groundnut and other products for which a large proportion of the land in any region of reasonable extent is used. In addition it furnishes a means for distributing improved seed and implements.*

242. Generally speaking the time and money which the Agricultural Department would have to spend in organising regulated markets would not, at the present stage of development, be spent to the best advantage. The field-work which that department is carrying on at present gives more promise of profitable results. Mr. Odell, whose experiment at Thayetmyo has just been described, is however now engaged in India in studying marketing methods there to see what useful suggestions can be made.

243. **Postponement of Marketing of Paddy by Cultivators.**—Measures to assist cultivators to withhold their paddy from the market for some time have been freely advocated ; but it is doubtful whether such measures are advisable. They might be profitable for a few to undertake ; but it does not follow that they would be profitable if undertaken by a large number. It is true that all the paddy of the country is sold by cultivators within about three months ; but it must be remembered that the monsoon comes very soon after. There is danger that if paddy were generally stored much of it would deteriorate and consequently prejudice all Burma rice in the world markets. More profitable uses can be found for the capital that would be used in protecting against such deterioration. Again paddy dries and loses specific gravity considerably in the first few weeks of storage, so that the increase in value of a consignment is not in proportion to the increase in the market rate per hundred baskets. Further, while the reservation of a considerable amount of paddy in March and April, when Burma rice now goes to Europe, would tend to increase the price at that time, the consequent increase of supply later on would come just when rice of other countries, in some cases of superior quality, would be coming upon the market. Even without any deterioration through storage the reservation of Burma paddy would thus force down the price and fail to attain the object for which its sale had been delayed. Another difficulty is offered by the lack of capital ; if any considerable amount of paddy were stored in excess of that stored now there would be an additional claim upon the capital available now for advances for cultivation expenses early in the season ; this also would tend to defeat the object of storing by cultivators, because it would tend to raise the interest upon crop-loans. It would tend rather to emphasise than to remedy the seasonal variation in the demand for agricultural loans. Finally there is the consideration that the work

* An account of the bazaar by Mr. Odell himself is given as an appendix in the second volume of this report.

which a cultivator understands is cultivation and not speculation. Losses through buying paddy to store and sell at a profit are amongst the important causes of the ruin of cultivators ; for them such speculation is mere gambling.* Cultivation if properly carried out is sufficient to engage a cultivator's whole time and energy at least for the time being, if not for the whole year ; marketing should be taken off his hands.

244. Cultivators are almost unanimous in asserting that they could get higher prices if only they could postpone the sale of their crop ; but they do not appreciate either the difference which such postponement on a large scale would make in the course of the market or the other considerations advanced here. The fact is that, looking at the marketing of paddy from a world's standpoint, the orderly marketing of Burma's paddy has been developed in some degree though it has not been deliberately planned. The most promising lines of advance for the mass of cultivators seem to be those that aim at making the most of the season when the world-market can be Burma's, and at securing for Burma the market in India, this being the nearest and still the most important of the markets for Burma's rice. Measures to assist millers and other dealers, including large landholders who receive rents in the form of paddy, to store for sale at a later date are to be distinguished from measures to enable cultivators to postpone the disposal of their harvests, although cultivators will probably get some share of the benefit such measures bring to the dealers. Some of the considerations of the preceding paragraph do not apply to dealers, or apply only with reservations.

245. **Marketing-Credit for Dealers.**—Advances to dealers are given by Chettiers and by Dawsons Bank and by the Myingyan branch of the Imperial Bank upon agricultural produce stored in godowns. The banks and sometimes the Chettiers have their own lock and key and their own watchmen at the godown. The banks also require insurance as a rule, but sometimes dispense with it for non-inflammable godowns during the monsoon. A further account of these advances in relation to paddy is given in dealing with rice-mills in paragraphs 296 and 297.† The Chettiers usually advance up to two-thirds of the value of the produce and charge interest at 1 to 2 per cent per mensem, according to the size of the advance and the season of the year ; the usual rate in the busy season is 1'75. In many cases paddy-millers own land which they give as security for advances.

246. **Licensed or Public Warehouses.**—We undertook a study of the provision of licensed or public warehouses for agricultural produce and for other goods ; but owing to the pressure on our time we

* Compare paragraph 117.

† See also paragraphs 221 and 319.

had to give this up before we reached any definite conclusions. Remarks upon the subject by witnesses will be found in the third volume of the report as answers to questions 43 to 48. The Nattukottai Chettiar's Association has suggested that Government should provide warehouse facilities in public warehouses in Rangoon and other important centres. We understand that the subject has been taken up in the reports of the banking committees of other provinces. We were disposed to think that the real usefulness of licensed warehouses for agricultural produce will depend upon a satisfactory system of grading the produce so that it will not be necessary for every separate consignment to be separately stored ; but, as stated above, our conclusions have not yet matured.

247. Effect of Indebtedness upon Marketing.—

Generally it may be said the chief influence both of permanent indebtedness and crop-loans upon marketing results from the need to pay interest in the one case, and both to pay interest and to repay principal in the other, soon after harvest. This need impels early sale of the produce. But in the preceding paragraphs we have recorded our view that the postponement of sale would not necessarily benefit the cultivators of paddy, which is the most important crop, and that other lines of advance offer greater benefit. There are one or two districts which have reported that lenders occasionally compel borrowers to sell their produce to them, but generally there is an explicit statement in the same evidence that the current market price is paid (*e.g.* answers to question 42 by Thayetmyo and Myingyan district committees). It is difficult to suppose that borrowers always get the same price that they would get if free to sell to any buyer ; but it is clear that there is no serious loss of price. The reason for the stipulation is not that the lender wants to get an unfair profit, but that he wants to prevent the borrower from spending his money before paying his debts. Borrowers still dispose of paddy surreptitiously. From Katha district there is a report that borrowers are compelled to sell at the lender's price ; while there is no mention of any loss to the borrower even there, it appears that such loss is implied. But, as will appear in the next paragraph, the Katha dealers seem to be in a peculiarly strong position. The Myaungmya district has reported that landlords usually insist upon tenants selling paddy to themselves and prescribe the kind of paddy to be grown accordingly ; this however is one aspect of the higgling to determine the competitive rent.

248. Taxes and Marketing.—Katha district also complains of the collection of the *thathameda* tax in Upper Burma in January. It is alleged that paddy-traders take advantage of the necessity for cultivators to raise money and force them to sell a minimum of 50 baskets of paddy even when only a sum of Rs. 5 or Rs. 10 is

required for the tax. Loans by Government or a postponement of the tax are said to be the only remedies ; but collective action by a group of tax-payers making up between them only sufficient paddy to meet their tax would be an easier matter. The postponement of the *thathameda* tax is a proposal upon which we can give no advice ; we do not think a system of Government loans for the payment of taxes need be studied. Prome and Akyab districts also report that the need to pay land-revenue impels an earlier sale than would otherwise be necessary. In the present year 1930, when the price of paddy was much below its level in recent years, there was strong agitation for the postponement of the payment of land-revenue on the ground that cultivators would be able then to get a better price for their produce. This expectation has already been discussed earlier in this chapter.

249. Conclusion.—The most important part of the problem of marketing agricultural produce in Burma relates to the marketing of paddy, which is being studied at the present moment by a committee specialising in it. While therefore making such contribution to the matter as we can, we advise awaiting the report of that committee.* So far as we can see the problem has a purely financial side a trading side and an agricultural side, the two last having also their financial aspects. For these two sides grading must be the basis of any large improvement in the finance of marketing, and it is best now to concentrate attention upon the improvement of the finance of cultivation and upon popularising the technical agricultural improvements already available. We have mentioned in particular the importance of encouraging the production of uniform grain, and have suggested the formation of co-operative sale societies to control the type and quality of grain offered on the market. We have suggested also the further development of sales by samples. These measures, together with a reduction in the number of types of paddy grown, would be useful we think in leading on towards a system of grading. For a solution of the purely financial side of the problem we look to the institution of banks all over the country as proposed in Chapter XIX; those should provide at reasonable cost the temporary expansion of credit required for the harvest by increasing the note-issue on the security of bills based on the produce.

* We have asked that committee to supply a copy of its report to the Indian Central Banking Enquiry Committee.

CHAPTER VIII.—CREDIT FOR INTERNAL TRADE.

250. **Importers.**—The importers of goods from foreign countries outside India, except eastern Asia, are chiefly European, but include some Indians, while the importers of goods from India are chiefly Java Indians but include some Europeans. The importers of sugar from Java are Europeans and Indians. Amongst the Indian importers Marwaris and Mahomedan Boras predominate. Goods from the Malay States and the Straits Settlements and further east are imported chiefly by Chinese. Burmans have little part in the import trade.

251. There are two main classes of importers, namely, (1) merchants, who import at their own risk; (2) indent or commission agents who simply pass on to foreign shippers the orders they obtain from shopkeepers and upcountry distributors, charging from $1\frac{1}{2}$ to 5 per cent. for the service according to the nature of goods and the magnitude of the order. The first class also act largely as agents of foreign manufacturers of machinery and branded goods, and they keep stocks, often considerable; they work mainly with their own capital, which in most cases is substantial, and they have credit with the exchange-banks. The second class usually have samples only and work with comparatively small capital.

252. **Trade by Sea.**—The sea-borne trade from foreign countries and India centres almost entirely in Rangoon, through which pass nearly all imported European goods and also most of the imports from India. Akyab gets three-quarters of its foreign imports from Rangoon and one-quarter from Calcutta, in each case chiefly through commission agents. Bassein has occasionally a small direct import of foreign manufactured goods. Moulmein, Mergui and Tavoy import sugar from Java and betelnut from the Straits Settlements, and some manufactured goods direct from Europe and Japan. The sea-borne trade is fairly well provided with credit facilities; most of it is conducted by businesses which have considerable capital of their own and credit with the exchange-banks, while the other businesses engaged in it are assisted by the Chettiar, Marwari, Multani and Gujerati financiers who are found in the big ports as described in Chapter XIIIa.

253. **Trade by Land-routes.**—The external trade over the land frontiers is small compared with the sea-borne trade but is not inconsiderable. There are three important trade-routes in the north-east, all leading eventually to Yunnanfu. Two start from Bhamo and Lashio respectively and go by Namkham, Tengyueh and Talifu; the

other starts like the second from Lashio but goes by Kunlong and Yun. On all these routes about seven-tenths of the trade is carried by mules and the rest by pack-bullocks. A motor-road from Bhamo to Namkham (68 miles by this road) will be completed early in 1931, and a small part of it is already in use. The motor-road from Taunggyi to the Takaw ferry on the Salween is also used in some measure as a trade-route. There is a second route from Bhamo by Taiping to Tengyueh and then on by Talifu to Yunnanfu like the first route ; but although very direct it is not much used for trade because of its hills. There is still another route from Myitkyina, but that too is not used for trade to any considerable extent. There is a custom-house at Bhamo with outstations on the Bhamo routes, and at these a drawback of 95 per cent. of the customs duty paid at Rangoon on goods imported there by sea and passed on to China overland can be obtained ; in this way a transit trade to China in cotton yarn, cotton piece-goods and various other manufactured goods is encouraged. The principal exports to China are cotton piece-goods (roughly 80 lakhs per annum*) and rupees (10), and kerosene (1) while the principal imports are raw silk (99) rupees (32) manufactured cotton (4½) sticklac (4) lides (1½) and cigarettes.†

254. Three trade routes lead to Siam, starting from Moulmein and converging again in the Me Klawng valley. One goes from Moulmein by the Ataran valley and the Three Pagodas Pass ; both the other two go through Kawkaireik, where there is a customs station, one going by Pagyiywa and the other by the Myawadi pass. There is also a short route, less used for trade, from the village of Tenasserim to Moe Ang Prachuab Girikhan, which is a harbour where the Siamese railway touches the eastern coast of the peninsula. There is also a route from Siam down the Salween river. The principal exports to Siam are cotton piece-goods (85) rupees (33) dried and salted fish (3) ; the principal imports from Siam are raw silk (105) rupees (45) cattle (17) teak (14).

255. On the north-west there is a road practicable for motor-cars between Impal (the capital of Manipur State) and the Manipur Road station on the Assam-Bengal Railway. From Impal there are three practicable routes into the valley of the Upper Chindwin, down which the journey can be continued to Monywa and so into the central part of Burma. But the trade by these routes is negligible.

256. The numbers of rupees imported and exported by the routes to China and Siam are very striking. There is no doubt that if

* Figures in brackets in this paragraph and the next give rough statements of the value of the trade in 1924-25 in hundreds of thousands (that is, *lakhs*) of rupees. Later figures are not available.

† Further notes on the trade at Bhamo are given in the last chapter of answers to our questionnaire in Volume III of this report.

better facilities for finance could be provided both the true export trade and the transit trade could be increased ; but no suitable method of effecting this improvement has occurred to us.

257. Distribution of Imported Goods.—Goods imported by sea are sold direct by the importers to retailers in Rangoon and some of the larger towns, especially in Lower Burma ; but a larger part of the goods imported by Rangoon firms reaches the retailers through the hands of merchants or commission agents, of whom most are Indians but some are Jews, Armenians, Chinese, Burma Moslems * or of other races. A number of such people who distribute the goods imported by European firms are found in Rangoon, Mandalay, Bassein, Moulmein and Akyab, which may be regarded as entrepot towns for the regions surrounding them. Similarly the goods which come over from China are distributed chiefly through merchants in Mandalay, and those from Siam through merchants in Moulmein.

258. In the small riverine and railway towns, served from these entrepot towns or direct from Rangoon, are to be found a number of retailers who also act as wholesale suppliers of village shopkeepers and bazaar stall-holders, and obtain their supplies of imported goods direct from Rangoon. Canvassing on behalf of Rangoon merchants for orders of these suppliers by means of travellers has increased considerably in recent years, and is one of the reasons for the great increase of imports of tinned milk, cigarettes, electric torches, scents, cosmetics, small electric lighting plants, hardware and several other classes of goods.

259. Trade in Burma Produce.—The internal trade of Burma, apart from the distribution of foreign imports, may be divided broadly into four sections : (1) the marketing of agricultural produce and fish ; (2) the marketing of the products of cottage industries ; (3) the sale of goods produced by factories and (4) other trade, wholesale and retail. Generally all these four sections are less well provided with credit facilities than the import trade ; and this is due in some measure to the fact that the goods are dealt with in smaller quantities and are less constant in description and quality than the imported goods.

260. Agricultural Produce and Fish.—The marketing of the principal commercial crops has been described in the preceding chapter. The supplies needed by the local population are provided partly by the brokers or merchants but mainly by special dealers with a knowledge of the tastes of the Burmese consumer. For example, there are some kinds of rice grown almost solely for consumption in restricted areas.

* *Burma Moslem* is the description of themselves preferred by the offspring of Indian Mussalmans and Burmese women ; another name is *Zerbadi*, but "*Burma Moslem*" sometimes includes Arakan Mahomedans as well.

Many of the upcountry rice mills are largely or mainly engaged in milling rice for internal consumption—a business which has been increasing rapidly in the last ten years. Sesamum, groundnuts, gram, cocoanuts and palm-sugar (*kyantaga*) are dealt in by Burmese, Indian and Chinese traders ; wheat and potatoes mainly by Indians. There is a large trade in fish—fresh, dried, and salted—and in fish-paste (*ngapi*) which is mainly in Burmese hands.

261. Products of Cottage Industries.—The products of cottage industries, such as reed mats, bamboo mats, baskets, silk or cotton piece-goods, pottery, lacquerware, Burmese harness and wooden slippers, etc., are marketed by traders, mainly Burmese and Chinese, who specialise in each of these lines. They give orders for goods, make an advance for materials or supply them on credit, and call for the goods when ready, arranging their own transport by road or water. It is noteworthy that the initiative usually rests with these merchants ; that is to say, the village craftsmen and their families as a rule do not make for stock, but remain idle except when they have received an order from some trader. Attempts to encourage cottage industries by co-operative financing and sales societies have had only temporary and slight success ; the amount of sales effected through co-operative societies is insignificant compared with the total amount of production.

262. Products of Factories.—The modern large scale industries have each their own method of disposing of their produce. The big sawmills export most of their first and second class timber and dispose of their third class timber and "waste" by auction to Chinese and Indian traders ; and there are many small sawmills producing wholly for internal consumption who sell through Burman Indian and Chinese retailers. The large oil companies (the Burma Oil Company and the Indo-Burma Petroleum Company) each have their own organisation of authorised dealers for disposing of kerosene petrol and lubricating oils, and such dealers are found now in every town and in many large villages throughout the area of our enquiry. The dealers must pay for their supplies before delivery, and accordingly require a capital of Rs. 500 to Rs. 25,000 or more, according to location. They give credit both to retailers and to customers who purchase for their own consumption, the latter being chiefly motorists buying petrol ; and they generally collect their dues once a month, although in a few places retailers have to pay weekly. The dealers often have some capital of their own, but must practically always borrow more from Chettiars, paying 1·25 to 2 or more per cent per mensem according to circumstances. The Chettiars also assist them in remitting money to Rangoon to pay for their stocks ; but most send by registered insured post or through the government

remittance system or by money-order, and in some places where they have many customers who have banking accounts in Rangoon they are helped in making the remittances by being paid by cheques and by giving cash for cheques. They send the cheques to Rangoon to be credited to their account with the refiners.*

263. The smaller factories usually sell their products both direct to shop-keepers and through middlemen, who, if they are not in the neighbourhood of the factory, have usually to pay cash against railway receipt or mate's receipt. Ordinarily the value-payable post is used for this purpose, as consignments are not ordinarily worth more than can be collected by this post.

264. **Credit enjoyed by Wholesale Traders.**—The large firms and companies, many of them European, with large capital resources of their own, are customers of the Imperial and joint-stock (including exchange) banks and finance themselves by overdrafts or cash credits and by discounting export bills, that is to say, bills of exchange drawn to obtain payment for goods exported. At the other end of the scale are wholesale traders in a small way of business; these generally have a little capital of their own and supplement it by buying on credit as described below for retail traders and by borrowing. They borrow from Chettiers on the security of land or house property or gold when they have these available and in other cases on a promissory-note. Chettiers are sometimes unwilling to lend to these small traders on promissory-notes when they have no property; resort must then be had to other moneylenders and rates of 2 to 3·5 per cent per mensem paid.

265. Most of the wholesale traders are between these two extremes. They generally own a large part of the capital they require, and they supplement this by buying on credit and by borrowing. Rangoon importers generally sell on credit only to large wholesalers in Rangoon, commonly taking from them promissory-notes payable after one, two or three months; other wholesalers must generally pay cash or deal with one of these wholesalers in the way described below in connection with retail trade. Borrowing by wholesalers is generally from Chettiers; but Chinese often borrow from Chinese, and in Prome and Moulmein as well as Rangoon some borrow from Marwaris. The Chettiar rates of interest are as described in paragraph 524, a well-established trader borrowing on promissory-notes without security at the usual rates for secured loans. Marwaris sometimes require a share of the profit in addition to interest; timber-traders in Moulmein pay Marwari lenders a commission on their turnover. Outside Rangoon little credit is given by trade-bills of any kind. Upcountry traders buying local produce and despatching it to Rangoon generally sell to a local Chettiar bills payable

* Compare paragraph 380.

at sight and drawn upon the consignee, who is generally the trader's principal or agent but may be a purchaser of the produce ; the Chettiar charges 2 to 5 annas per Rs. 100 according to the time that will elapse before the bill reaches Rangoon for collection. Such bills are chiefly drawn by Chinese traders and to a smaller extent by Indians ; Burman traders make little use of them.

266. Retail Trade.—Retail trade in Rangoon is carried on by European, Indian, Chinese and Burmese shopkeepers and a few Asiatic Jews, Indians predominating. The Burmese sell chiefly fish, fruit, flowers, vegetables and goods required only by the Burmese section of the population, but other dealers also sell all these. There are several large covered markets owned by the Surati Bazaar Company and two other companies, and by the Municipal Corporation. The Surati Bazaar and the Central Municipal Market (called the Scott Market) each have many hundreds of stalls, held by stall-holders ranging from well-to-do Indian cloth merchants to poor Burmese women selling fish, fruit or cheroots

267. In other towns the retailers are Indians, Chinese and Burmese in about equal proportions, with a tendency for Indians to predominate in numbers though Chinese often surpass them in size and importance of business. In the larger villages there will be found two or three Chinese shops and one or two Indian shops ; in smaller villages which have only one shop it is pretty sure to be Chinese. Most towns and important villages have a covered bazaar belonging to the local municipality or other local authority in which there are a number of stalls and also a number of sellers who have no regular shop but have a small stock of fruit, flowers, vegetables, fish and other things on small bamboo trays which they place in front of themselves as they sit upon the ground. The latter class are known as "daily bazaar" sellers and pay a small rent for the day ; some are only casual sellers, but some sell every day the bazaar does business. Some daily bazaar sellers are the wives and daughters of cultivators or fishers selling their own or their menfolk's produce ; sometimes they are only dealers buying from the producers. In Mandalay Burmese, Chinese and Indians all take considerable part in the retail trade both in the town and in the bazaar. The bazaar consists of a series of substantial covered buildings and is remarkable for its size in proportion to the town ; it serves as a general emporium for Upper Burma. Amongst its stall-keepers Burmese predominate. In Upper Burma every fifth day is commonly the recognised bazaar-day when most business is done ; on other days there is often little going on. In most Lower Burma towns the days are generally all alike.

268. Credit given by Retail Traders to Customers.—In Rangoon and its neighbourhood many shopkeepers do not give credit at all ; others selling rice, vegetables and other daily requirements of a

household, and some who sell cloth and clothing and other manufactured goods, give it to regular customers, especially to clerks, mechanics, domestic servants and all sorts of labourers who have a regular monthly wage. It is common in towns for one-fourth to one-third of a shopkeeper's sales to be on credit, accounts being settled monthly. In villages the shopkeepers sell on credit during the crop-season, expecting payment at harvest time. The principal shopkeepers in the villages are the Chinese. These sometimes take security in the form of jewellery or a mortgage of the crops or of land. They get much of their stock on credit from merchants of their own race in Rangoon, and often undertake some paddy trading at harvest. They buy paddy generally in small lots at a little below the price paid by other dealers for ordinary lots, and often settle a customer's account in this way. By accumulating a number of small lots they are able to get enough to sell at the current market-price.

269. Credit enjoyed by Retail Traders.—European shops, and in Rangoon the larger Indian shops, have accounts with the joint-stock banks. Other shopkeepers supplement their own capital (sometimes very small) (*a*) by credit granted by wholesale dealers and commission agents, (*b*) by loans or fluctuating advances (overdrafts on current account) granted by Chettiers or other Indian moneylenders or occasionally Chinese. The wholesalers sell to others who are only retailers or are both wholesalers and retailers, and commonly give credit to regular customers of either kind, though small retailers can generally get credit only from a local wholesaler who is closely acquainted with them. In certain lines the wholesaler only gives credit to purchasers who get all their stock through him. Usually payment for credit-purchases is expected within three months; but sometimes the period is shorter. On the other hand Chinese dealers in Rangoon often expect payment only in the next March, when the paddy is being sold.

270. No shopkeepers, other than European and a few Indian firms, borrow from joint-stock banks and few borrow from co-operative banks or societies. Most retailers have provided part at least of their stock by means of a loan raised from a moneylender, usually a Chettiar. For such loans it is usual to give security by depositing gold or jewellery or mortgaging a house or land or finding a guarantor; but well-established shopkeepers often get loans without specific security. The Chettiar is able to keep himself acquainted with the state of his customer's business. Whether security is given or not the borrower signs a promissory-note. In Rangoon and some of the larger towns the larger shopkeepers have current accounts with a local Chettiar; the shopkeeper pays in each evening his takings of the day and draws out from time to time the cash required for his purchases of stock and for his living expenses. In this way the shopkeepers, besides avoiding the

risk of keeping cash on their premises, have the advantage of paying interest only on the actual debits of their accounts ; every day when they pay in more than they take out they reduce the sum on which they must pay interest. Some shopkeepers take loans on the system described in paragraphs 274 and 275.

271. Besides Chettians the moneylenders who finance shopkeepers are Chinese, Burmese and Indians other than Chettians,—for example, Tamils, Moplas, Chulias, Bengalis, Suratis, Marwaris, Punjabis and other northern Indians. In

Race.			Pegu District.	Sagaing District.
Burmans	...	...	20	...
Shan-Burmans	...	...	...	75
Chettians	...	...	40	5
Other Indians	...	...	10	5
Chinese	...	...	30	15
Total	...	...	100	100

Bhamo and Sagaing districts Shan-Burman moneylenders also are numerous. In the margin are shown estimates received from two widely separated districts of the percentage of persons of each race engaged in lending money to shopkeepers.

272. The rates of interest charged by Chettians to shopkeepers are from Re. 1-8-0 to Rs. 2 per Rs. 100 per month in Rangoon and Mandalay, Rs. 1-10-0 to Rs. 3 in Bassein, Rs. 1-12-0 to Rs. 3 or more in Myingyan. For small shopkeepers, borrowing only Rs. 300 or Rs. 400, rates of Rs. 2 to Rs. 3 per month prevail in most towns. Large shopkeepers borrowing Rs. 1,000 or more pay Rs. 1-8-0 to Rs. 1-14-0. Interest is payable monthly. So long as it is paid promptly the loan is usually allowed to run for an indefinite period until stringency in the money-market, a change in the debtor's circumstances, or the change of an agent or partner in the Chettian firm makes it desirable to call in the loan. The demand for loans on the part of retail traders increases in September and reaches a maximum in December, January or February.

273. Stall-holders in municipal markets and in odd places wherever they can find a location are a special class who pay heavily for finance. The great majority of the stall-holders in the Rangoon markets are working on borrowed capitals. The large are financed by Chettians and by wholesale dealers who sell goods to them on credit ; the smaller by other Indian or Burman moneylenders.

274. In many places small stall-holders borrow money on the system of daily repayments known as *ne-pyan-do* or *ne-pyan-pe*. Loans under this system are usually exact multiples of Rs. 10. At the time of issuing the loan one-tenth is kept back as interest, and an agreement is made for the remainder to be repaid by a certain number of equal daily payments, which are always a number of whole rupees. Generally the period of repayment does not exceed a month, but sometimes it is stretched to forty days. Thus if a loan of Rs. 10 is taken, only Rs. 9

will be actually given and one rupee will be paid back daily for ten days ; if a loan of Rs. 100 is taken Rs. 90 will be given and three rupees will be paid back daily for thirty-three days and one rupee more at the end. Loans range from Rs. 5 to Rs. 150, but are usually below Rs. 50; in some large places however loans of three or four hundred rupees may be taken on the similar plan described for Rangoon in the next paragraph. In some places loans of this character are granted by Chettiars as well as by Burmese and other lenders ; in other places the Chettiars leave this business to others.

275. In Rangoon, where these loans are described by the Indian term *kisti*, none of the larger Chettiars are concerned with them, and even the small Chettiars do not trouble about very small *kisti* loans. Two systems are in force there, one for daily and one for monthly payments. For daily payments the usual period (in Rangoon) is a hundred days ; sometimes the period is as little as 60 or as much as 120 days. The usual size of loan is Rs. 100 to Rs. 500 ; there are a fair number of loans up to Rs. 1,000 and even a few above Rs. 2,000, while some Chettiars occasionally go as low as Rs. 50. Interest is deducted from the loan at the time of issue. The daily *kist* is a whole number of rupees arranged to complete repayment in the agreed period. The Chettiars have a collector going round the bazaar every afternoon to collect the payments. For monthly payments the usual period is three, four or five months, but sometimes the period extends to ten months. The usual size of loan is Rs. 400 or Rs. 500 ; ordinarily Rs. 1,000 is the maximum, and loans below Rs. 100 are rarely taken in this way. Interest is deducted at the time of issuing the loan, and the repayments are equal instalments according to the number of months. Loans for daily repayment are arranged so that borrowers pay an instalment from each day's takings ; they are not used by traders of good reputation and standing, but keepers of small shops and of road-side stalls often have no cheaper source of credit, and for a large body of traders they are the normal or even the only source. The monthly system described is also used only by people who cannot get better terms ; traders who have the Chettiar's confidence take loans for repayment by as many as ten monthly instalments but pay each month the interest on the outstanding for the previous month. The deduction made for interest is said by Chettiars to vary from 1·0 to 1·5 per cent per month reckoned on the whole loan for the whole period, the rate depending upon the risk of delay in repaying estimated for the particular borrower ; but enquiries amongst borrowers showed that even reckoning on this basis higher rates of interest are charged both by Chettiars and by other lenders. Ordinarily for a loan of Rs. 1,000 for 100 days to a good customer 8 per cent seems to be deducted from the loan, while for a customer in a small way of business to whom only a smaller loan would be given the deduction might be 10 per cent. A deduction of 8 per cent for 100

days is equivalent to 2·43 per cent per mensem reckoned on the whole loan for the whole period. Enquiries amongst stall-keepers showed cases of loans of 120 rupees for 120 days with Rs. 20 withheld for interest and even of loans of 60 rupees for 60 days with Rs. 10 withheld; these correspond to nominal rates of over 4 and over 8 per cent per mensem respectively. In any case the true rates of interest reckoned on daily outstandings must be about double the nominal rate because on an average the daily outstanding is about half the nominal loan, and the real loan is less than the nominal loan by the interest deducted at the beginning. Thus a borrower who gets 92 per cent of the nominal loan and repays in 100 days pays interest at about 60 per cent per annum on the daily outstandings, while for the other loans quoted the rate would be about 100 and over 200 per cent per annum respectively. These rates seem excessive; but the lenders say the borrowers often fail to repay regularly, so that the period of the loan is greatly extended (and therefore the rate is less than appears) and that allowance must be made for the expenses of collecting the daily payments.

276. Improvement of Credit Facilities for Trade.—For all traders above a quite small scale, except the largest, the great source of finance is the Chettiar, supplemented by the other financiers described in Chapter XIII A. Rather smaller traders also get finance from the Chettiers, and in some places even the daily repayment loans of the daily-bazaar sellers are furnished by Chettiers; but all the miscellaneous moneylenders described in Chapter XIV have some part in financing the small traders. Even here however the Chettiers are important because they supply a considerable amount of the capital of these moneylenders. Naturally a general development of banking in the country, whether by Chettiers or by others, whether by joint-stock banks or otherwise, collecting more capital by the accumulation of a large number of small deposits, would be of use to trade; and if banks of any sort could once be established on a basis permitting the finance of trade at a considerably lower cost than now, there would inevitably be an increase of trade which would provide more business for the banks and make it continually easier for them to meet their expenses and carry on until they became self-supporting. It is however the first step that counts. As we shall have to point out in other connections in this report, although the collection of deposits is the road by which this development is to be reached eventually, there is no hope of any deposits being obtained until the banks have already made considerable progress. We shall endeavour to attack this problem in Chapter XIX.

277. Meanwhile, both as a preparation for a more widely extended banking system and as a means of making better use of the existing banks, the increased use of bills of exchange (hundis) would be of advantage, as it would connect the trade of all parts of the country with

important supplies of capital. Bills enable the trader to obtain capital in such quantities and at such times as his business requires. The present system of lending on promissory-notes has the disadvantage of increased difficulty in keeping the total volume of credit in proper relation to the volume of trade so as to avoid both inflation and deflation. The banks in Rangoon watch carefully in granting their credits to see that, although their advances may not be associated one by one with particular trade transactions, they are in fact genuinely advances for trading purposes ; but the volume of credit is not so well controlled in this way as it would be with a system of genuine trade-bills. Where a trader would have to discount a number of comparatively small bills the cash credit system is convenient to both the bank and the trader ; it reduces the book-keeping of the bank and it lets the trader off with interest on the daily balance of his advance instead of costing him interest on a fixed loan. The trader would have the same advantage if each bill corresponded to a definite transaction, as his advances would thus always be approximately equal to his requirements ; but for this an intermediary is necessary between the large banks and the very small traders. The best solution depends upon the rise of a class of acceptors of trade bills ; and it is probable that if a sufficient volume of bills came into being the acceptors would also appear. But the bills must increase in number first, and that increase is difficult to bring about at present when there are no local banks and the Chettiars, with all their command of capital, have it already fully employed. As before, it is the first step that counts ; somehow or other banking must be extended and carried on for some time. After that the system of finance by bills would grow up naturally and assist in carrying on the banks. On this point we refer the reader to paragraphs 335, 339 and again to Chapter XIX, especially paragraph 807.

CHAPTER IX.—CREDIT FOR INDUSTRIES.

278. The Indian Industrial Commission.—The problem of financing industry in India and Burma was studied in 1916-18 by the Indian Industrial Commission which paid particular attention to the financial difficulties experienced by industrialists working on a small or medium scale. It thought there was need for industrial banks, but did not decide definitely ; it proposed that an expert committee should be appointed to consider what additional banking facilities are necessary for the initial and for the current finance of industries, and how they should be provided. The kind of bank which the Commission contemplated was a bank which could keep in touch with small industrialists, would be able to estimate the prospects of a fairly extensive range of industries, and would possess funds which it could afford to lock up for a time in securities not readily realisable. The larger portion of its industrial business was to consist of the provision of current finance ; it was to provide fixed capital with caution. But the bank was to do ordinary banking business too, because otherwise it would not get a sufficient return on its capital.

279. Current Finance and Fixed Capital—This distinction between current finance and fixed capital is important. Advances to an industrialist for current finance are repaid within a short period, so that the bank making them is able to control its risks by keeping a due degree of liquidity in its assets. The provision of fixed capital means granting loans for an indefinite period ; usually such provision takes the form of underwriting shares, which are then held until they can be sold to the public at a remunerative price. The shares may be issued either for initial capital or for an increase of capital. In some countries there are institutions which specialise in providing fixed capital and are commonly called industrial banks ; an example is Japan, where the industrial banks obtain their funds by the issue of debentures. In other cases the industrial banks are primarily what in England would be called holding companies, taking up large blocks of shares ; this for instance appears to be the case with some German industrial banks, although they often supply the current finance for the undertakings they have promoted and discount or accept bills for them and do some banking work for the public. In France the *banques d'affaires* work similarly and make deposits a matter of secondary importance and frequently will accept them only from foreign banks and from companies which they have established ; they use chiefly their own resources. In Sweden the commercial banks make large

advances for fixed industrial capital ; but the average ratio of their capital to deposits is 1 to 4 * whereas the corresponding ratio in England is 1 to 13 and in the United States of America it is 1 to 7. In 1913 the Swedish ratio was 1 to 2'6 and the present tendency is towards reaching that level again. It is moreover a special characteristic of Swedish banks that their deposits are largely permanent investments of saved capital. Austria was before 1914 the country in which the commercial banks took the greatest part in supplying fixed capital for industry ; the banks formed underwriting syndicates for the issue of industrial shares which they retained until they found a favourable opportunity to dispose of them, financing the transaction by the issue of debentures. Since 1920 there has been in most countries a general tendency for banks to make larger advances for the fixed capital of industry than before ; but it is too early yet to see the outcome of this tendency after the special circumstances resulting from the war of 1914-18 have disappeared. In their annual reports for 1929 four of the five leading bank-chairmen of England mentioned the matter and agreed that those banks which are mainly deposit institutions are forbidden by their duty to their depositors to supply industry with fixed capital on a considerable scale ; this capital must come from the permanent savings of the country. The formation of new institutions to facilitate the supply of fixed capital was suggested ; and such institutions have already been started this year as the Securities Management Trust, a subsidiary of the Bank of England, and the Bankers Industrial Development Company of which the Governor of the Bank of England is chairman. The issue by banking companies of debentures has also been suggested as a means of raising the capital required to supply the fixed capital of industry. These developments in England, as well as the examples given above from other countries, illustrate the general principle that banks which supply fixed capital must either have a very large paid-up capital in proportion to their public liabilities or hold for long terms the money they obtain from the public. The Indian Industrial Commission recognized this in advising caution with respect to the provision of fixed capital by the banks it proposed to form. But it is particularly for the supply of fixed capital that special institutions are required if they are appropriate at all ; current finance is supplied to industry readily all over the world by ordinary deposit-banks.

280. Industries in Burma.—The industries employing the largest numbers of people are those dealing with mineral oil, timber, rice, and all kinds of transport. A distinction must be made between industries employing large numbers of people on the whole and those carried on in large establishments. With the exception of rice-mills, saw-mills, rubber plantations on a moderate scale individually and

* *Foreign Banking Systems*, by H. Parker Willis and B. H. Beckhart, 1929.

an unsuccessful attempt to establish a large spinning and weaving establishment, Burmans have confined both their industrial organisation and their industrial investment to small undertakings ; this has already been mentioned and explained in paragraph 1.

281. Large-scale Industries.—The industrial establishments of the largest scale belong to European firms and companies. The industries carried on are the winning, refining and transport of petroleum, the mining and smelting of silver and lead * ; the extraction and sawing of teak and other timbers, rice-milling in the ports and transport by river-steamers. (The railway is now managed by Government.) On a smaller scale are rice-milling outside the ports, tin and wolfram mining, electric-light supply, electric trams, cotton-ginning, rubber growing, the collection and export of hides, the manufacture of chemicals, engineering and building ; these differ from the first group not only in their usual size but also in being carried on in many cases by Indians, Chinese or Burmans, although Europeans still play a part. The larger establishments in all the industries mentioned in this paragraph can deal with the exchange-banks and the Imperial Bank of India and other banks, and some have access also to the London money-market ; no proposals from us for further financial facilities for them are needed. The smaller establishments which carry on some of these industries are included in those discussed in the rest of this chapter.

282. Other Industries.—Industries on a smaller scale are numerous and varied ; a list made in about 1921 showed no fewer than 136 separate industries, and even so was incomplete. They include industries carried on in the forest or the fields or on the rivers or in quarries, and industries carried on in buildings ; the latter range from industries in small factories to cottage industries which may be full-time occupations or part-time occupations practised in combination with other cottage industries or with agriculture. In the last case agriculture may be, but is not always, the more important occupation ; even workers who call themselves cultivators sometimes derive the larger part of their income from their non-agricultural occupations. Some of the small industries supply only local needs ; the products of others are distributed widely. None of them make for export, except certain cheroot-makers who supply a small number of cheroots to certain European traders in Rangoon, who export them to London chiefly for the use of persons formerly resident in Burma. Some toys and lacquer work were exported experimentally a few years ago ; but no development ensued.

* The silver-lead industry is in the Shan States and outside the region of our enquiry.

283. In Lower Burma (outside Rangoon) there are fewer cottage and other non-agricultural industries than in Upper Burma. The ample rains of Lower Burma enable cultivators to live in comparative comfort on the produce of their fields; and commonly ten months elapse between the first preparation for cultivation (mid-April) and the completion of the winnowing (mid-February), a slack period of two months occurring in the middle of the ten. Even weaving is no longer practised in typical villages; the great development of paddy cultivation for export, described in paragraphs 37 and 38 was largely attained by the concentration upon agriculture which was invited by the physical conditions and was more profitable than the combination of various occupations with the cultivation of smaller holdings would have been. In the unirrigated parts of the dry zone of Upper Burma the precarious rain-fall makes it impossible for some cultivators to get a living from their land alone, and also permits more industries to be carried on. In the central and northern parts of the Prome district, where paddy cultivation predominates as in other parts of Lower Burma although the rain-fall is comparatively small, the holdings are very small and often fragmented, and the cultivation season lasts only about eight months; there a number of small industries, supplementary to agriculture, are practised, chiefly weaving fishing and the extraction of cutch and other kinds of forest-produce. Other parts of the country follow one or other of these types more or less closely.

284. The smaller industries include the smaller establishments of some of the industries mentioned in paragraph 281 as also carried on in large establishments; the most important of these are the rice-mills outside the ports, and an account of these will be given in paragraphs 295 to 298. Of those which are not represented also in the large-scale industries some of the more important are given in the following list* :— fishing and hunting, cattle sheep goat duck and fowl rearing, dairying, silk and cotton weaving (including the weaving of Shan bags), dyeing, tailoring, sewing (almost entirely by machines) for clothes and household requisites, carpentry, house-building, furniture-making, mattress and pillow-making, cheroot-making, making of lacquer-ware, rope-making, charcoal-burning, salting and drying of fish, making of fish-paste, thatch-making, basket-making, weaving of bamboo mats, weaving of reed mats, iron founding, the work of blacksmiths, goldsmiths and silversmiths, the manufacture of iron trunks, brass and bronze casting, quarrying of various minerals, brick-making, pot and pipe-making, pressing oil from sesamum and ground-nuts, the extraction of oil from citronella (lemon-grass), soap-making, umbrella making, sculpture, ivory and wood carving, glass mosaic work, making musical instruments, making paper lanterns, cutch, jaggery and

* Some interesting accounts of a number of particular industries, including the way in which they are financed, are to be found in Chapter III of the third volume of this report and the appendix to that chapter. See Volume III, page 337.

salt boiling, manufacture of matches, bead and rosary making, watch-repairing, book-binding, leather-working, the extraction cutting and polishing of precious stones, jade-working, boat-building and repairing, cart-making, tanning, paper-making, saddle and bridle-making, making of artificial flowers, making toys of tin-plate wood or papier-maché, winning petroleum from hand-dug wells, making Burmese sandals with soles of wood leather or rubber and uppers of leather or velvet, the preparation of sugar from sugar-cane or palm-juice, the manufacture of ice and mineral waters, the making of rice-macaroni (*mohinga*) and cooking of various kinds. Some comparatively new additions to this list as cottage industries are printing by small presses, repairs to cycles motor-cars and motor-launches, building motor-launches (often with engines from old motor-cars) and the making of match-boxes from veneers supplied by a match-factory.

285. Silk-weaving is of special interest in Burma. The cloth is much used by the people for clothing and has a good local sale. The seat of the industry in Upper Burma is at Amarapura and in Lower Burma at Shwedaung. The industry has received encouragement and support from Government by the introduction of improved looms. Some progress has been made in the local breeding of the silk-worm, but religious prejudices have impeded this. The great bulk of the raw material comes overland from China and Siam; the value of this import for the year 1924-25 was over twenty million rupees (2 crores).

286. None of the industries confined to cottages and small establishments gives occupation to large numbers. The textile industry is one of the most important; yet for all its branches together, including ginning spinning weaving dyeing and other operations for cotton silk and other materials, we estimate, on the basis of the census of 1921, that not more than 8,000 males and 120,000 females are employed in it in their houses besides 1,575 males and 862 females in small factories. Of the females probably 100,000 were part-time workers, many of whom gave only a comparatively small part of their time to weaving and were largely engaged in household work.

287. **Cottage and Factory Industries.**—By a factory we understand an industrial establishment in which ten or more persons are employed, this being the definition used in the decennial census.* In a cottage industry the work may be carried on in the home by a man or woman, boy or girl, alone, or by a family group, or it may be carried on in a workshop, either in the home or elsewhere, by a master or mistress with paid assistants from outside the family less than ten in number. Some of the indoor industries mentioned above are carried

* The Indian Factories Act applies in Burma to establishments with twenty or more employees and to all match factories employing ten or more; as a matter of fact there are now no match factories employing less than twenty.

on only in factories, some only as cottage industries ; some are carried on occasionally as cottage industries and occasionally as factory industries. Some factory industries are carried on without mechanical power. Until recently cottage industries rarely if ever used mechanical power ; but the development of small internal combustion engines has enabled many small motor repair-shops, saw-pits and other undertakings to use it. In most places electric power is not available during the daytime ; but in Rangoon and a few other places where it is available it is used by some workshops.

288. **Organisation of small establishments.**—The small establishments and particularly individuals and small groups working on the lines of cottage industries do not as a rule make for stock, but make only to order, having received the necessary materials or an advance of money. The practice of not making for stock is not entirely due to lack of capital, as might be supposed, but to a variety of reasons. Uncertainty about marketing the product, as in the pillow and mattress-making industry of Salé is one reason ; and an important reason contributing to this uncertainty is that for most products of native Burmese industries there is a cheaper and sometimes more convenient (though possibly less artistic) imported substitute. Household utensils of lacquer-ware, for instance, have been almost entirely replaced by imported articles in earthenware, enamelled iron or aluminium ; silk is now entering upon the same phase through the competition of artificial silk and Japanese machine-woven silk. Another important reason for not making for stock is the unwillingness of the cottagers to take up contracts for continued regular supply. An instance of this was furnished by attempts of some large Rangoon firms to arrange a regular supply of Burma cheroots for sale in London. There was no question of shortness of capital for the cheroot-makers ; sufficient advances were offered. The difficulty seems to have been due to inability to organize the business so as to obtain uniformity of quality in the raw material and in workmanship and to keep up a regular supply. In industries which thus make to order the raw material is generally supplied to the workers by a dealer on credit at current prices on condition that they sell the finished product to him at an agreed price, which is sufficiently low to allow him not only a good rate of interest on the cost of the raw material but also a profit on the sale of the product. The dealers usually borrow from Chettiars without security at 1·5 to 2·0 per cent. per mensem, occasionally taking small loans from other lenders. If the dealers have gold to pledge, they can get their loans a little more cheaply.

289. The principal small industries making for stock are the cheroot-making industry and the lacquer industry. The women of rural Burmese families are expected to know how to roll cheroots of the *se-baw-leik*.

variety, and if the family taste runs to *se-pyin-leik* they must know that too ; in most families above the poorest grades the cheroots are accordingly made at home. In many small towns there are also people making cheroots on a small scale for local sale. But at Danabyu, Allanmyo, Mandalay, Moulmein, Rangoon and some other places cheroots are made on a larger scale for wide distribution, and include better qualities for use by the well-to-do classes. In these places the principal employs local girls to make the cheroots by hand at his house, and he buys the tobacco and other materials with money borrowed from the local Chettiar or other lender, commonly without security. The highly skilled lacquer-work at Pagan and Nyaung-u is carried on by about 25 to 30 master-craftsmen with the assistance of their families and employees. They have capital of their own ; but considerable help has been given in recent years by the formation of a co-operative credit society for their benefit.

290. Co-operative credit societies have been formed in various parts of the country to assist other cottage industries too. The Government of Burma has for about ten years employed an officer as Superintendent of Cottage Industries for the purpose of promoting cottage industries and improving their materials appliances and technique, and in particular to assist them in obtaining the credit they need ; this officer works in close association with the Co-operative Department. Besides special co-operative societies formed for particular industries there are urban co-operative banks supplying credit to artisans and small industrialists. For all these loans from co-operative societies and urban banks the rate of interest is 1'25 per cent per mensem.

291. **Future Credit Facilities for Small Establishments.**—The financing of cottage industries is best done through Chettiers or professional moneylenders lending on similar lines, or co-operative societies. As already related it is receiving the attention of the Superintendent of Cottage Industries. The development of co-operative societies is naturally obstructed temporarily by the condition of co-operation generally at the moment (see chapter XII) ; but that will recover in time.

292. Small factories obtain *current finance* from Chettiers and other professional moneylenders and banks and would be assisted in this matter by the establishment of banks on the lines advocated in the last chapter of this report. But Chettiers are not willing to supply *fixed capital* in the sense defined in paragraph 279, and deposit-banks or a bank of issue certainly could not supply it. The question is whether an industrial bank could be established to satisfy this need in Burma under the conditions of the present time or the near future.

293. The only industry in which there are a number of units of considerable size is the rice-milling industry. An industrial bank formed for rice-mills alone would have too much risk concentrated on one

industry ; while it is undesirable for a bank to deal with an excessive variety of industries, each making only a small contribution to its business, it is necessary for it to deal with a number of independent activities so as to average its risks. But in financing other industries a bank working for all Burma would find a profusion of very small concerns falling into a large number of classes, each of which would require a different body of knowledge and a watch on different markets, while each concern would afford business for the bank on only a small scale ; the bank could not, without expense which would be excessive in proportion to the business it could do for each of its clients, keep in sufficiently close touch with them. If to avoid this difficulty a number of smaller industrial banks were formed, they would not be able to support the expert management necessary or to appeal successfully to the public for capital. When ordinary banks have been developed their managers may be able to manage industrial banks as part-time occupations ; by that time the second difficulty also may be less. But this is not possible for many years yet. Promoters of industrial enterprises must therefore find capital by appealing to persons willing to support them by forming private companies. This method has been found practicable in Burma and has been pre-eminently successful in the United Kingdom, and indeed is the usual way of starting small enterprises in most countries. When a capacity for successful work has been shown, an appeal can be made to the public for further capital. If sufficient undertakings reach this stage there will be room for an industrial bank to help float the new companies, and later perhaps to help the successful ones to combine. But the time for such a bank does not yet seem to be ripe.

294. In new industries, which offer good promise of future development but have not been tried, there is room for pioneer work by Government, as was done in the case of the rubber industry in Mergui. But the direct or indirect supply by Government of fixed capital in ordinary cases is inadvisable.

295. **Rice-Milling.**—The growth and spread of the rice-milling industry has already been described in Chapter II. In recent years the outstanding feature of its development has been the rapid growth in the number of rice-mills along the railway-line and the main waterways, especially in the delta. Almost all of these are owned by Burmans, Indians and Chinese. According to the last census report there were in 1921 only 388 rice-mills altogether in Burma, and the ownership of these was classified as follows :—European 45, Chinese 53, Indians 61, Burmans, Karens and other indigenous races 224. Mills owned by Europeans are found only in the ports and are all large mills ; of a total of 50 mills in Rangoon in 1921, 15 were European. The Burmese, Indians and Chinese mills outside Rangoon and the ports are small ; but

they make up for the smallness of their individual milling capacity by their number. The large profits earned at one time stimulated the erection of new establishments until the milling power exceeded the demand, and in the last few years millers have had a hard struggle which is still going on. A small rice-miller in a rural tract has an advantage over a miller in the ports because he saves the freight of the husk to the port. His expenses are generally also on a smaller scale except in obtaining finance ; and he has a decided advantage in buying, as he is in closer contact with the producer and can secure as a rule better and more uniform qualities of grain than millers in the ports. These get quantity rather than quality.

296. Current Finance for Small Rice-Mills.—The rice-mills other than those large mills in the ports which have access to the large banks are generally financed by Chettiars ; some are financed by private individuals, some in Rangoon by the Chinese banks and some in the Irrawaddy delta by Dawsons Bank. In Rangoon and the other ports and in Mandalay the Chettiars make advances at 2 to 5 annas per cent per mensem above the Chettiar current rate ; on an average the interest is thus at 12 to 14 per cent per annum in the busy season and 8 to 10 per cent in the slack season. In other places the rate for a loan does not fluctuate but is fixed at 1'25 to 1'75 per cent per mensem according to circumstances and the season ; in the busy season the rate is generally 1'5 or 1'75 and for a loan of less than Rs. 5,000 two per cent will probably be charged. The advances are made on promissory-notes and are ordinarily returned at the close of the season between June and September in each year. The amount of working capital required for one of these small mills during the season, is from Rs. 25,000 to Rs. 30,000. In the last three years however, owing to the difficulty of millers in making profits, there has been an appreciable contraction in the credit given by Chettiars to rural millers ; and, where the latter have had no considerable assets besides their mills, working capital has been denied to them, and many have had to close down their mills. Those who continue to work are still numerous and are obliged to do more speculative business than formerly. Six or seven years ago it was possible for rural millers to keep their mills going throughout the season by milling for hire ; but this is not now possible. Paddy is bought to be milled for sale as rice ; and working capital has become necessary in larger quantities. If the paddy is bought in a continuously rising market the profits are substantial ; but otherwise the losses may be serious. Rice-millers anxious to avoid speculation have tried to keep their mills going with milling for hire ; with this object they have financed traders who buy paddy, have it milled and sell it as rice. But the capital required for this purpose is considerable and cannot be obtained easily unless the miller owns land which he can give as security.

297. Dawsons Bank has recently devised a plan for overcoming this difficulty by enlisting the co-operation of the miller. The trader, after buying paddy, customarily stores it with the miller until he wishes to sell and then has it milled. The bank advances money to buy the paddy, and the miller acting as agent for the bank surrenders to the bank his right as bailee and holds the paddy in trust for the bank until the trader's advance is repaid. The trader declares his acquiescence in this arrangement, and the miller in addition to acting as trustee of the bank for the paddy accepts joint liability with the trader for the loan. The consideration for liability as trustee for the paddy and for the loan is the willingness of the bank to finance the miller's customers on the miller's recommendations. The paddy is labelled with the bank's name for the purpose of identification, and the bank keeps a clerk at the mill to check measurements of paddy on arrival ; the bank also inspects the stocks at frequent intervals. The loans are made for short periods of one month or less, but the period may be extended on reasonable grounds. The bank has the right of sale in default of payment, and the paddy may not be milled or delivered without the bank's consent. When the rice is sold the trader, repays his advance, and the bank returns the documents of hypothecation to him and at the same time informs the miller that the produce is released.

298. The Burmese and indigenous rice-millers have many lessons to learn. They are new to the business and have not realised that it requires numerous and exacting qualifications. Such rudimentary notions as the necessity of providing for annual depreciation of plant or of keeping proper accounts have not seriously impressed them, and no thought has been given to the making of suitable provision for working-capital. Most of the mills have been built with the aid of borrowed capital, and the owners have in consequence found it difficult to raise funds for current working expenses. Lenders in the circumstances are chary of making advances even at high rates of interest. A good year may allow the advances to be repaid, but a bad year may put the miller out of business and compel the lender to take over the mill. The present depression in the rice trade will probably take a heavy toll in this field of indigenous industrial enterprise ; but a "shake-out" of the weak men will drive the lessons home and the results in the end may be all to the good.

299. **Part-time Occupations of Agriculturists.**—These industries are to be distinguished from industries subsidiary to agriculture. In the latter the workers may be engaged full time either for a part of the year or all the year round ; their characteristic is that either their raw material is derived from agriculture or their product is used for agriculture. The part-time or supplementary industries are industries in which agriculturists engage when their agriculture gives

them spare time, and they are of great variety and not necessarily associated with agriculture. A part-time occupation may occupy the worker for part of a day principally devoted to his main occupation, or for whole days in short intervals in the main occupation, or continuously for a season when the main occupation permits. The last kind might be found in factories which had a busy season when agriculture was slack ; but generally part-time occupations of any kind are possible only as cottage industries in the homes of the workers or in small factories without mechanical power. In other cases the overhead costs of the industry are prohibitive.

300. Part-time Occupations for Owners and Tenants.—

There seem to be exaggerated ideas about as to the need of supplementary occupations for agriculturists who are owners or tenants. In most parts of Lower Burma, notwithstanding the common opinion to the contrary, a cultivating owner or tenant has little time for supplementary occupations. The cultivation of paddy is exhausting. Ploughing and transplanting involve heavy work while the feet and legs are in comparatively cool mud or water, and the sweating body is exposed to a scorching sun except at intervals when the scorch is interrupted by a sudden downpour of cold rain ; and all this must be suffered with a body often fevered by exposure on previous days to such conditions. The poisons and germs left by numerous biting insects also play their part in reducing vitality. When transplanting is finished two months which elapse before harvesting begins are taken up in repairing agricultural implements, boats and carts and in the care of cattle, including the considerable labour of cutting grass for them. Some men with small holdings earn a supplementary income in this period by fishing, collecting various sorts of forest produce and in other ways ; but most have no time for this and require for physical recuperation a respite from exposure and arduous work. The reaping and threshing season is exhausting again, although its work is not carried on under such unfavourable conditions as ploughing. When it is over the cultivator must stay near his threshing-floor to sell the paddy ; meanwhile there must be preparation for next cultivating season, and cattle have still to be cared for a little although it is not necessary to cut grass for them. Fuel for the next wet season must be collected in some places though in others it is bought, houses must be repaired, manure for the next season's nurseries must be collected. Thus the apparent economic waste in the periods of unemployment of cultivating owners and tenants in Lower Burma generally is an illusion ; the periods are periods of recuperation with light employment, and little time is available for supplementary occupations. Every cultivator knows he must give his cattle special food (oil-cake) during the season of stress, and that he can only work them lightly during the intervening

periods if he does not want to shorten their useful lives ; his own body requires much the same treatment. The increased income from supplementary industries, if they were possible, might permit a higher degree of physical efficiency to be reached ; but it is useless to think men can take up new work after the ploughing and harvesting seasons without an interval of comparative rest, even if the miscellaneous work now done in those resting-times can still be accomplished.

301. These are of course men with holdings smaller than the average who get rather more leisure and are less exhausted ; these often find employment in carting and the like to compensate, and they do for themselves work which others usually get done for payment. The same solution of the problem is used in the districts of shorter cultivating season, such as Prome. There is everywhere a complex adjustment in the amount of work the cultivator does for himself in thatching, fuel collection and other directions, and in the amount of carting to be done to market the district's harvest and in the area cultivated. Advantage is taken of a longer wet season to work a larger holding and to specialise more in cultivation, paying others to do more of the other work. In Upper Burma the problem differs chiefly in the way the active agricultural period is divided up. The tendency of improved methods in agriculture will also be to use more of the cultivator's time in the recuperating seasons, leaving him still less time for independent supplementary occupations, however light.

302. Besides the danger of overstrain we see another danger in attempting to stimulate supplementary occupations for agricultural owners and tenants. Labour in supplementary occupations is apt to be sweated labour, not only under capitalistic organisation but also under domestic conditions. Especially this applies to the women and children, though it applies to the men too. The horrible exploitation of women and children, in the early nineteenth century in the factories of England and later in Japan, was a recognised feature of the domestic system which the factories displaced, though not quite so bad. The women and children, it is true, are not now fully employed ; but their exploitation would be a worse evil than exists now. Peasant proprietors in all countries must work hard to make a good living ; the labouriousness of the life of a French peasant, for instance, is well-known. But there is a great difference between working hard for oneself in occupations connected with agriculture, carried on in the open air, and being sweated through an industry carried on indoors ; moreover the evils of the latter case are not confined to the sweated worker but infect the whole body of the people.

303. Accordingly we think that so far as cultivating owners and tenants in the wet areas are concerned the problem of financing supplementary industries can be set aside. The best line of development for those drier areas where the cultivator's energy is not exhausted in his

cultivation is in the broadening of his agriculture by closely-related farming occupations. These must be sought out for each locality ; as examples we suggest poultry-rearing and bee-keeping. Both of these could be carried on by women with the occasional assistance of the men, and the women would still have time to mend clothes, nurse the sick and maintain a higher standard of cleanliness, comfort and health in the homes than now. For men with more time and energy unemployed various kinds of gardening for fruit and vegetables offer an opening. Condensed milk is now being made at Mandalay ; but Burmans do not generally milk their animals, and an average temperature which is about the optimum for developing germs is not an advantage. With economic resources increased in these ways as well as by improved seed, improved methods of cultivation, improved organisation of marketing and improved agricultural finance as a background for all these, we look for a cultural development. We look in fact for better living to follow better farming and better business. During ten months the agriculturist cultivates his fields and has neither time nor opportunity for anything else ; during the other two months when the work in his fields is reduced he should cultivate his mind. It is not at all necessary that such cultivation should be understood in a narrow and stilted intellectual sense ; indeed it should rather be artistic. But the opportunity should also be taken for tours of travelling adult schools, and for short courses on the model of those in the folk-schools of Denmark, teaching amongst other things the improvement of agriculture and housewifery. As all would be done in fine weather the money to be sunk in fixed capital for these schools would be comparatively small.

304. Part-time Occupations for Agricultural Labourers.

—The employment of agricultural labourers may be seasonal or casual. While a labourer is employed for the ploughing season or for the harvest season he has no use for part-time occupations. If he is employed for both the seasons his case is the same as that described above for the cultivating owners and tenants. The problem of providing part-time occupations arises only for the seasonal labourer in a season when he has failed to get employment and for those who are always casual labourers. Some cottage industries suit these conditions ; e.g. the making of match-boxes near Rangoon. The materials are in the house and can be taken up in any idle hour. But (without making any implications as to the present condition of the industry just mentioned) it must be recognised that industries carried on in such circumstances are peculiarly liable to exploitation, and not all occupations can be carried on in this way. The problem is in fact to provide whole-time employment for an unemployed part of the labourers rather than part-time employment for all. The aim should be to develop industries to

CHAPTER X.—MISCELLANEOUS CREDIT.

306. Loans to agriculturists, traders and industrialists have been treated in Chapters V to IX. Loans to labourers, small artisans and salaried workers remain.

307. Labourers in the villages fall into two main classes : those who are employed seasonally for some months at a time, and those who are employed casually by the day. Seasonal agricultural employment is generally in two periods corresponding roughly to ploughing and to reaping, each season lasting as a rule for about four months ; sometimes the man employed for the ploughing season is re-engaged for the reaping season and he may stay on without any interval. Well-skilled seasonal labourers can generally continue to get seasonal engagements until their strength fails a little ; but they usually try to forestall this by becoming tenants. Others get seasonal employment if they can, and look for daily employment if they can not ; others again never get anything but casual employment. Women labourers are always casuals. When not employed in agriculture labourers take up all sorts of means to get a livelihood ; a characteristic of the Burman is his versatility. Casual labourers are paid each day and generally in cash, though reapers and binders in some parts are sometimes paid in kind. The wages of seasonal labourers are generally due for payment in kind at harvest, whether the employment is for the ploughing or for the reaping season.

308. Casual labourers are constantly borrowing petty sums of a few annas to carry them over days of unemployment. They sometimes get these free of interest, and sometimes get an advance from somebody who will shortly be wanting to employ them. Sometimes the lender is another of the same class who happens to be in better luck at the moment. Loans of 5, 10 or 20 rupees are wanted sometimes ; for example to pay the capitation-tax or to get an outfit for going down to an estuary to fish for prawns or up to the forest to cut firewood ; these are got from villagers to whom the borrower is well-known, and the rate of interest is usually about 5 but may be anything from 3 to 10 per cent per mensem. Small artisans in villages who do only repair work or have no stock in trade are on much the same footing as the labourers.

309. While employed as a seasonal agricultural labourer a man almost invariably lives as one of his employer's household, whether he lives in the employer's house or in a temporary hut built out in the fields to be near the work. He thus gets his food and tobacco supplied and sometimes gets one or two shirts and skirts to wear. A worn-out skirt wrapped round his head to protect from the sun is the only other

clothing he looks for at working times, though he sometimes owns a coarse jacket. If he is a bachelor, and has not borrowed from his employer to buy some finery or an electric torch, he has his paddy wages due to him at harvest, and gets his employer to sell them in the bulk with his own paddy and pay in cash accordingly at the price received. Thus a bachelor gets along pretty well ; but as a rule Nature soon chastens him with a wife. When he has a wife or family they have to be supported separately as they do not live in the employer's house. The wife probably does some day-labour herself in transplanting paddy or tying sheaves or in weeding (if crops other than paddy are grown) when she can get it, or she earns perhaps a quarter of her keep by selling something on a scale smaller than the pettiest imaginable by those who have not looked into it ; possibly the children of five or six years old conduct the selling while she is away at work. The capital for this may be only eight annas, but it has to be found somewhere ; and the balance of the family's keep has to be made up. The labourer borrows accordingly from his employer, taking advances which are set off against his wages at harvest. In the calculations for this the custom varies in different parts. In some the employer, who can always borrow more cheaply than the labourer, because he has at least his crops as security and is borrowing for himself on a larger scale, lends to the labourer at the interest he pays himself and deducts the amount due when settling accounts at harvest. Sometimes a rate is fixed as part of the employment contract, commonly Rs. 3 per cent per mensem or Rs. 3 for Rs. 10 for any part of the season. In other cases one rupee advanced is reckoned as one to one-and-a quarter baskets of paddy at harvest time. These rates depend upon the local supply and demand, and the reputation of the labourer, and are part of the adjustment of the market-rate of labour. It should be noted that the labourer's payment in excess of the money borrowed is not all interest. By taking his payment before it is due he is also insured against various risks such as drought or flood that might destroy the crop and leave the employer unable to pay him.

310. Labourers and small artisans in the towns, like those in the villages, get petty advances here and there as they can. They are less likely to be acquainted personally with somebody who can lend to them ; but on the other hand there are more people who are lending regularly to such borrowers. Some of these have borrowed money to carry on their own business ; but they lend at a higher rate than they pay. In some places the Chettiars grant these loans ; and in recent years the pawnshops have become the ordinary resorts of many people for such loans.

311. Salaried workers, typified by clerks but including shop-assistants mechanics domestic servants and others, borrow when they can by getting advances of wages from employers. But this cannot always be

done. Burmese domestic servants then borrow in the same way as small artisans. Indian servants working in European or wealthier Burman households and getting Rs. 20 to Rs. 50 a month readily spend Rs. 300 to Rs. 600 in getting married ; they (or their parents on their behalf and in their name) borrow on promissory-notes from other Indians, either of their own caste or of another, and undertake to pay interest at one or two pice per rupee per month. Often these large sums are borrowed from lenders in India. Smaller sums, such as Rs. 20 to Rs. 50 are borrowed locally in the same way ; but interest is usually one anna per rupee per month. The lender does not generally recover so much interest as these rates would yield ; more frequently there is default leading to a decree with interest at 12 annas per cent per mensem on the amount accumulated at the date of the suit and repayment by monthly instalments fixed by the court. The most important lenders in towns are Indians of the durwan and peon class. In spite of their comparatively small pay these as a class lend a great deal of money, especially to clerks in the same establishments and nominally superior to them there. Government offices are not only not free from this indebtedness of clerks to menial servants, but afford perhaps the most examples of it. The usual rate of interest is one rupee per Rs. 10 loan up till next disbursement of salaries, no matter when the loan is taken.

312. The custom of paying wages monthly undoubtedly contributes to the need for credit on the part of town workers, because so few of them can retain enough capital to pay their way through each month. A system of weekly wages would shorten the period for which credit is required and would reduce its total amount to less than one-fourth because many more cash transactions would come to be made; the total amount of credit used now in the last few days of a month must be very large, and by reducing this demand the cost of it would also be reduced. Employers might want credit to pay wages earlier in the month than now ; but they would also receive payments earlier for goods sold or services rendered ; there would in fact be a more rapid turnover all round. Government might set the example for its menials and lower division clerks.

313. We further bring to notice the example set in New York by the personal loan department of the National City Bank of New York. Loans of Rs. 150 to Rs. 3,000 may be granted to any person who earns a regular income or has his own business. Six per cent is discounted from the loan at the time of issue for the bank's expenses and interest, so that a borrower of Rs. 216 would actually receive Rs. 203. Two guarantors are required unless suitable collateral security is given. Repayments are made by twelve equal monthly instalments, which in our example would be Rs. 18 each, and these are credited to a deposit account bearing three per cent interest compounded monthly. At the

end of the year the balance of this account is used to repay the loan, and the excess (in our example Rs. 2'96) is paid to the borrower less a small deduction as a life-insurance premium, the object of which is to relieve his family and guarantors of all liability for the loan in case he dies during the year. Borrowing to pay medical expenses (*e.g.*, operation), buy household equipment or clothes, pay educational expenses, taxes or insurance premia when other emergencies (*e.g.*, a funeral) have arisen, and to meet other financial difficulties arising in every household at some time or another is often a socially profitable course. Even careful people who save regularly often find it difficult to meet such expenses without serious disturbance of their investments and are deterred from making some investments (*e.g.*, life-insurance) because of the risk that such expenses may have to be met. We think great caution would be necessary at first in Rangoon in working such a scheme, but that, if started with carefully selected borrowers and loans moderate in relation to their incomes, it could safely be extended gradually as other classes learned by contact with actual borrowers. the necessity of observing the borrower's obligations. The scheme is new in New York; but in one year's experience it has been found that the average loan there was about Rs. 1,000 the average borrower's income was about Rs. 690 per mensem and that 97 per cent of the borrowers made good. We note particularly that the loans are not confined to the bank's depositors. We commend the plan to the notice of the banks, including the co-operative banks as well as the joint-stock banks, suggesting they might find profit for themselves in doing a real social service by giving accommodation at reasonable rates on these lines; as an experiment they might confine loans to people having an income of Rs. 250 per mensem or more, and might charge on slightly higher scales for loans below Rs. 150 and between that and Rs. 300 so as to cover their book-keeping expenses. We invite their attention to the parallel between this retail personal lending and the present development of banking for small accounts in Great Britain and America.

314. Most of the borrowers contemplated in this chapter will not have access to commercial banks; their loans will always be too small for those banks to deal with. But those banks can be of assistance to even the humblest borrower through the intermediation of co-operative societies and the better kind of moneylender. Co-operative town banks, co-operative societies for salary earners, co-operative societies for members of a particular government office or department all exist as well as rural co-operative societies; more of all these should be developed, following always the principle of preferring quality to quantity. We hope to see banks of a commercial type spread over the country and in such close contact with these societies that they will be able to assist them readily with finance. Similarly we hope also to see professional

moneylenders, working on sound lines with a high standard of integrity, acting as intermediaries between the banks and those borrowers who do not wish to join co-operative credit societies but yet have business of too small a scale to deal with the banks directly. In Chapter XIX we shall make proposals designed to lead the country on to this by establishing a true central bank as a first step ; in Chapter XVII will be found proposals for regulating the business of professional moneylenders, and in Chapter XV for regulating the pawnshops which are likely to be the ordinary source of finance for many of the poor.

CHAPTER XIA.—CREDIT INSTRUMENTS AND DOCUMENTS OF TITLE.

315. Credit Instruments in common use.—The credit instruments most commonly used are promissory-notes payable on demand and hundis payable at sight. Other promissory-notes and hundis are also used. Bills of exchange drawn in English are used, but are chiefly for transactions in which both parties are European or American or one party is a European or American and the other does business on a large scale and is more advanced in financial matters than the ordinary people in his business. It is to be observed that, according to the evidence given us from Moulmein and Tavoy, Moulmein bills are usually payable on demand while most of those in Tavoy are usance bills; we think it is probable that in both towns the documents are generally in the form of promissory-notes. It will appear presently too that some documents, written in English but spoken of by bankers as hundis because received through a Chettiar or other indigenous financier, are really bills of exchange or drafts, when they are not promissory-notes. Other instruments in common use among indigenous bankers and money-lenders are mortgage-bonds, deeds of hypothecation and documents relating to pledges of gold or jewellery, and guarantees. We shall return to a discussion of these instruments and of promissory-notes and hundis after noting shortly upon certain other documents.

316. Other Documents.—Other documents used to obtain credit are railway receipts, mate's receipts, bills of lading, *taing-sa*, delivery orders, warehouse receipts. Railway receipts and mate's receipts are the acknowledgments given for goods handed over for transport by railway or inland steamer. Bills of lading are for a similar purpose in connection with a sea-going ship. *Taing-sa* are documents issued by timber-revenue stations showing the measurements of logs. Delivery orders are generally orders to a paddy-miller to deliver rice. Warehouse receipts are acknowledgments given for goods, generally paddy, deposited in godowns for storage. All these are rather evidence of title to property than credit instruments, and they are used as security for loans.

317. Most lenders refuse to accept railway receipts and mate's receipts as security, and such receipts are seldom transferred. The reason is that goods can be obtained from the carrier, without producing the receipt, by giving a bond of indemnity; this exposes the borrower to a civil suit, but as there is no material security pledged or mortgaged, lenders regard the security as insufficient. Some Chettians buy the receipts from a few approved customers who have despatched goods; the receipt is then sent to a Chettiar correspondent in the place where the consignee resides and is passed on to the consignee again in return

for the payment for the goods. Commission at Rs 2 to Rs. 6 per Rs. 1,000 is charged, the rate varying in different parts of the country. The business of this kind is very small. Delivery orders are accepted on a large scale by banks and Chettians in Rangoon and the other ports. Warehouse receipts are not in general use, both banks and Chettians preferring to have control of the warehouse and to have their own lock upon it and to keep their own watchman; but Dawsons Bank uses them to some extent as described in paragraph 297 in lending on paddy entrusted to a miller.

318. Mortgage-bonds.—The use of mortgage-bonds for securing loans on immovable property has already been described in the preceding chapters. Chettians frequently raise money from banks by assignment of their mortgages. This may be done by executing and registering an assignment or by handing over the mortgage-bonds to the bank; the latter method is practicable at present only in the ports.* A sub-mortgage is thus created in favour of the bank; but banks in Rangoon would ordinarily refuse to accept sub-mortgages of property situated outside Rangoon, and this is an important factor limiting the credit facilities of Chettians and others as the bulk of their mortgage-bonds secure payment on agricultural land or rural property. The only Chettian concern which could mobilise credit of this description is the Bank of Chettinad, which, as a company, could issue debentures secured on its mortgages. Banks in Rangoon are not able to appraise the value of agricultural land and other property outside Rangoon; but mortgages of these in the deltaic districts are acceptable to Dawsons Bank. Rangoon banks are also naturally reluctant in the case of enforcement of claims to sue in courts outside Rangoon.

319. Deeds of Hypothecation and Pledges.—Deeds of hypothecation are sometimes drawn up to secure money lent on standing crops or cattle, but more often to secure a loan on produce in the granary of the borrower. They are not however in common use. Chettians rely largely on the character and reputation of their borrowers, and where borrowers store grain for a rise in market-prices accommodation is generally granted in the form of promissory-notes; the lender trusts the borrower to repay on the sale of the produce. If the market goes against the borrower he is tempted to dishonest courses and the Chettian may and sometimes does lose his money. Documents relating to the pledge of gold or jewellery are invariably taken when such pledges are made with a view to obtaining for the lender the right to sell the pledge on default. The document is brought under section 176 of the Contract Act by fixing a date for redemption and by stipulating that in default of payment on such date the pledge will be sold without any further notice.

* See paragraphs 733 to 750.

320. Guarantees.—Contracts of guarantee are in common use among banks managed on western lines, but are seldom if ever employed by other lenders in Burma. The contract is a complex and intricate document which would not be easily understood either by borrowers or by indigenous lenders. Besides, there is no necessity for its use. This is not because guarantees are not demanded for the repayment of loans, but because guarantors are complacent and are willing to sign documents as principals and not merely as sureties for loans granted to the principal debtor. It is common to find sureties signing both mortgage-bonds and promissory-notes as principals ; the readiness of sureties to come forward is remarkable.

321. Promissory-notes.—Promissory-notes are used for loans and for goods sold on credit. In the ports of Rangoon, Moulmein, Bassein, Akyab, Tavoy and in Mandalay, Maymyo and Myingyan documents are drawn in the form of promissory-notes payable after a certain term and are called *hundis* ; these will be dealt with later in this chapter. The towns mentioned will be observed to be the towns where western banking is carried on. Outside these towns promissory-notes are nearly always made payable on demand and are generally called *on-demands* in Burmese. The next three paragraphs will be confined to these.

322. On-demands.—On-demands are used in the towns with western banks as well as outside them ; European and American bankers in those towns and the Imperial Bank of India generally call them *D. P. Notes* as an abbreviation of "demand promissory notes." Although worded to be payable on demand at the will of the lender, an on-demand is generally subject to an understanding as to the time of repayment. For an agricultural borrower, for instance, repayment is expected as a rule only after a harvest, either the next harvest or without specification of any particular harvest.

323. Two common forms of on-demand used in Rangoon and outside Rangoon respectively are as follows :—

Rs. 2,000.

31st January 1930.

ON-DEMAND $\frac{1}{We}$ jointly and severally promise to pay to.....or order the sum of Rupees Two Thousand only at (*place*) with interest thereon from this date until payment at the rate of Rupees 9 per cent per annum for value received, with quarterly rests.

Four
annas
postage
stamp

Signature.

Rs. 100.

17th August 1929.

ON-DEMAND $\frac{1}{we}$ jointly and severally promise to pay to.....or order the sum of Rupees One hundred only at (place) with interest thereon from this date at Re. 1 annas 8 per cent. per month.

One anna
postage
stamp.

Signature.

324. On-demands are written in all languages, generally in the language used by the parties in effecting the transaction, or, in some cases where that is foreign to both parties, in the language of the lender. Sometimes English is used even where the parties do not arrange the transaction in English and have only a slight acquaintance with it; in the latter case a bilingual form with the Burmese and English versions separately printed is usual. Printed forms in Burmese or in Burmese and English, with the names, amount and other particulars left to be filled in by hand, are on sale in most towns of moderate size. On-demands for crop-loans taken by borrowers of the Burmese or other indigenous race are always in Burmese or occasionally in the Burmese-English bilingual form. In Rangoon on-demands executed by Burmans are always expressed in both Burmese and English because an English translation is required by courts in Rangoon in case a suit is brought to recover the money. Tamil is also used for transactions amongst Tamils and by some Chettians in dealing with non-Burmans. Thus the commonest language is Burmese, while English, and Tamil are largely used and Urdu, Hindi, Bengali, Chinese and a number of others are used for a small proportion. All D. P. Notes in the European and American banks are in English. When an on-demand is not in English, the application to it of the Negotiable Instruments Act is limited by section 1 of the act, where there is a provision that nothing in the act is to affect any local usage relating to any instrument in an oriental language.

325. **Definition of Hundi.**—The term *hundi* is not defined in law and it is used loosely in commercial and banking circles to mean a credit document in any language emanating from or drawn upon persons carrying on business according to Indian methods. Using the term in this wide sense, hundis fall into two classes, namely *promises* to pay and *orders* to pay. The former class are promissory-notes. The

term hundi is sometimes used however, *e.g.* in the Indian Stamp Act, to include only orders to pay ; while some bankers would include both promissory notes and orders to pay but would include only such as arose amongst Indian traders and financiers.

326. In the sense which excludes promissory-notes a hundi may be defined as a document in any language signed by its maker and containing an order directing a certain person to pay a sum of money either (a) to the bearer of the document or (b) to a certain person named in the document or to his order. In this sense a hundi differs from a bill of exchange, as understood in commerce and defined in the Negotiable Instruments Act, in that the order is not necessarily unconditional ; in fact a bill of exchange is really a particular kind of hundi, namely an unconditional hundi, although the Indian Stamp Act inverts this relation by making the term *bill of exchange* include hundis. Since an unconditional hundi in the narrower sense in which the term hundi is used in this paragraph satisfies the definition of a *bill of exchange* in the Negotiable Instruments Act, it is subject to the provisions of that act relating to bills of exchange if it is written in English. If however it is written in an oriental language nothing in the act affects any local usage relating to it. (Cf. paragraph 324). Further, unconditional hundis payable at sight are either cheques or drafts if the drawee is included in the term *banker* as used in section 6 of the Negotiable Instruments Act ; but the application of the act to these also is limited by local usages as above if they are written in an oriental language.

327. Conditional hundis are unknown in Burma. Further, if the bills of exchange used by Europeans and Americans and a few others are excluded, all hundis which are in the form of orders to pay are made payable at sight. Thus in Burma the term hundi means a document arising amongst Indian or indigenous traders or financiers and containing either (a) an unconditional promise by the maker to pay a certain sum of money after a certain period, not on-demand, or (b) an unconditional order by the maker directing a certain person to pay a certain sum of money on demand. In both classes the term "a certain sum of money" means a sum definitely stated in the document without ambiguity or alternatives ; in both classes too the money may be payable either (a) to the bearer of the document or (b) to a certain person named in the document or to his order. A hundi of either class may be written in any language, but the application to it of the Negotiable Instruments Act is limited by local usage if it is not written in English.

328. The two classes of hundis will be called in this report (a) usance hundis and (b) demand hundis. As demand hundis are used only for remittances, further discussion of them is postponed to the next chapter. The remainder of this chapter deals with usance hundis.

329. **Nomenclature of Usance Hundis.**—Usance hundis are called by Indians *muddati hundi* or *miadi hundi* in the vernaculars, and *discounting hundis* or *discount hundis* when speaking English. Sometimes these English names are used when speaking in a vernacular. Burmans and others indigenous to Burma have no name for them as few people of these kinds handle them ; these few generally call them *discounting hundis*. Bankers call them *currency hundis* or *usance hundis* and it is this last name that we have adopted. All these terms however are used only when it is necessary to distinguish from demand hundis ; commonly the term hundi is employed alone for a usance hundi. Chettians in particular, having another name (*undial*)* for demand hundis, always mean a usance hundi when they speak of a hundi. Originally *usance* meant particular local customs with respect to the payment of a bill, but it is generally employed nowadays to indicate the period that must elapse after drawing or acceptance before payment can be claimed.

330. **Origins of Usance Hundis.**—In Burma usance hundis are drawn either (a) by one trader in favour of another or in favour of a local financier or bank or (b) by one financier in favour of another or of a bank. Nearly all hundis drawn by traders are genuine trade-bills arising out of transfers of goods ; but they do not necessarily arise out of a definite transaction—they may be for payments to a running account, and this explains the fact that they are generally, though not always, for an exact multiple of Rs. 100. In any case no documents are attached to them to connect them with particular transactions. There are practically no usance hundis of either kind drawn outside Rangoon and the other towns which have banking on western lines. Indeed, there are few even in Maymyo and Tavoy which are amongst those towns ; they are found almost solely in Moulmein, Bassein, Akyab and above all Rangoon, and generally the promisor and promisee are in the same town.

331. **Language of Usance Hundis.**—Usance hundis made in favour of a bank worked on western lines are always in English, and so too are most others. The remainder are in Tamil, Chinese or Gujerati according to the parties to them. Tamil is the most common of these because of the preponderant part played by the Chettians in the finance of the country ; but Chettians as well as other financiers use English usance hundis too. Even Tamil hundis issued by Chettians always have the amount shown in English figures as well as in Tamil words and figures. No secret languages or scripts are used in Chettian hundis ; we believe this is true also for all other hundis in Burma. There are no usance hundis drawn in Burmese or any other language indigenous to Burma.

* See footnote † of paragraph 369.

332. Form of Usance Hundis.—Two sample forms of usance hundis are shown below. The first is a genuine trade-hundi drawn by an Indian wholesale piece-goods trader in Rangoon in favour of an Indian importer. It was endorsed by the payee in favour of a Rangoon Chettiar who discounted it for the payee and then endorsed it again and re-discounted it with an exchange-bank. It was written entirely by hand on a hundi-paper sold by Government for the amount of the stamp-duty shown by the stamp printed on it, in this case twelve annas. The second is a form used by the Imperial Bank of India for an advance made to a Chettiar firm. This was on paper similar to the other but costing eighteen rupees, and the matter had been printed on the document by the Imperial Bank because so many documents of this kind are used by it. The payee mentioned in the document had endorsed it to the Imperial Bank, thus providing the second signature required by the Imperial Bank of India Act for discounting at that Bank.

Rs. 800.

Due on 23rd April 1930.
Rangoon, 30th December 1929.

*Hundi-stamp
printed on
the paper ;
value 12
annas.*

On the due date 23rd April 1930 we the undersigned jointly and severally promise to pay to or order the sum of Rupees eight hundred only for the value received in goods.

(Signature.)

Rs. 20,000.

Due 11th April 1930.
Rangoon, 11th January 1930.

*Hundi-stamp
printed on
the paper ;
value
Rs. 18.*

Three months after date without grace I promise to pay at the Imperial Bank of India, Rangoon, to Chettiar or order, for value received the sum of Rupees Twenty Thousand only with interest thereon from this date at the rate of per cent per annum.

(Signature.)

333. Period of Usance Hundis.—During the last four or five years the commonest period of usance hundis has been 120 days which is also the longest period used ; the next commonest period is 90 days, which used to be the most common. Hundis for 60, 50, 40, 30 days are also issued, but their number diminishes with the period and there are not many altogether for less than 90 days. Sometimes the period is stated in months ; this seems to be merely a matter of personal taste of the parties who draw up the document. When, as sometimes happens, the traders ask the Chettiar to write out the hundi which he will then be asked to discount, the Chettiar usually advises them to state the date of payment instead of the period ; but hundis with a period stated are more common than those with the date of payment mentioned. When a date is stated the period may be any number of days, but is usually between 90 days and 4 months. The first example given above represents an actual hundi of this type with a period of 114 days. When a period is fixed in a bill relating to transactions among Indian or indigenous traders, it is always to be reckoned from the date of the hundi, and is never described as so many days or months after sight ; periods reckoned from sight are used only in bills of exchange drawn in regular form by traders following European practices. When a date for payment is stated no days of grace are allowed ; but when a period is stated there are always three days of grace whatever the period may be. As full advantage of the days of grace is invariably taken, interest for those days is invariably reckoned when discounting the hundi ; consequently the real periods are three days longer than those stated above. Hundis drawn in favour of banks, as in the second example above, generally have days of grace explicitly ruled out.

334. Payment of Usance Hundis.—There is no general practice of "sighting"* hundis, nor is a hundi required as a rule to be accepted. This is so because both parties and the discounters generally live in the same town and the document is a promise signed by the promissor for a definite date ; the discounter generally knows both the promissor and the payee and in any case relies upon the latter. A notice is sent to the promissor on the day on which the period stated in the bill expires, or if a fixed date is stated, three or four days in advance ; on the third grace day or the date mentioned in the bill payment is claimed. In paying hundis Chettians outside Rangoon generally make the charge called *vattam* if payment in notes instead of silver is demanded. This charge amounts to only one and a half annas per Rs. 1,000 and is going out of use ; it is described more fully in paragraph 547. Usance hundis, like demand hundis, are not drawn in duplicate ; if one is lost a fresh one is issued after the holder has given a bond of indemnity.

* Bills of exchange payable so many days after sight are shown by the discounter or collector to the drawee so that he may note upon them the date of seeing the bill ; then the period runs from that date.

335. **Discount of Usance Hundis.**—Usance hundis are discounted by Rangoon banks for Chettians and other financiers known to them and doing business in Rangoon. The rate of discount at the bank depends upon a number of considerations. If the period of a hundi runs into the busy season the rate is naturally higher than it is if it stops short of that. Ordinarily the rate charged by the banks is about 2 to 3 per cent. above bank-rate in the busy season (January to April), and about $1\frac{1}{2}$ to 2 per cent. above bank-rate at other times. Most bills are discounted in the busy season when the bank-rate itself is high and the addition to it is also high. As a better rate can be obtained from the banks in Calcutta Madras and Bombay, the Marwaris Multanis and Gujeratis send their bills to those places to be discounted. The Chettians complain that they cannot do this because they do not get the same advantage ; for instance, the Imperial Bank at Madras charges the Chettians $1\frac{1}{2}$ or 2 per cent. more than it charges Marwaris for discount of exactly similar hundis. The Chettians say this is because the general level of interest-rates is higher in Rangoon than in Madras and so the Imperial Bank forces them to do their business in Rangoon where it can get a bigger profit ; probably the chief reason is that the Bank wants bills to be discounted where they arise, so that the Bank can know the parties. Multanis Marwaris and Gujeratis are not treated quite in this way ; only exceptional ones, if any, among them get a more favourable rate than the Chettians in Rangoon, but they do not meet difficulty in sending their bills to India for discount. A table of the discount rate of the Imperial Bank of India, prepared from the statements given annually in reports of the Controller of the Currency, is given in the second volume of this report.

336. Usance hundis in favour of traders in Rangoon are not usually discounted by the banks direct, but must first be discounted with a Multani Marwari Gujerati or Chettian financier who may or may not re-discount with a bank. The Imperial Bank of India must in any case require two good names liable for payment, this condition being imposed by the Imperial Bank of India Act. The rate at which the financiers discount bills depends upon the state of the market, the credit and bargaining strength of the parties and the usance of the bill. Ordinarily it is two or four annas per cent per mensem above the Chettian current rate (*nadappu vatli*) of which an account is given in paragraphs 502 to 505. Generally this makes the rate in Rangoon 2 or 3 cent. above the discount rate for similar hundis in Calcutta*. The discounters who can re-discount with the banks in the various centres are limited in number, and each of them is limited in the amount of credit he can have ; and there is not a free flow of money between the discounters in Calcutta and those in Rangoon. Consequently there is no equalisation of the

* A table of Calcutta bazaar-rates for hundis is given in the second volume of this report.

discount rates in Calcutta and Rangoon. The limit up to which any bank will discount bills for an average large Chettair firm is about five or six lakhs, including in the computation all bills which bear the firm's name either as borrower or as guarantor ; but all other clean credit granted by the bank on the same firm's signature, whether as principal or as guarantor, is reckoned in addition to the discounted bills against the same limit.*

337. Branches outside Rangoon of the Imperial Bank, the Chartered Bank and the National Bank discount hundis for local financiers on the same lines as in Rangoon, but usually the rate of discount is one-half per cent. higher than in Rangoon.

338. **Decrease of Usance Hundis.**—During the last ten years the Chettiar business in usance hundis is said to have decreased steadily owing to a decline in the piece-goods trade and to a growing distrust of the merchants by the Chettiars.

339. **Encouragement of Usance Hundis.**—Some Marwaris have complained that the Imperial Bank of India discourages the use of genuine trade-bills and encourages the use of accommodation-bills instead by a practice of refusing to rediscount small trade-bills even when offered in bundles of considerable total value. We have not made any enquiry into this, but we observe that small bills are likely to emanate from small businesses, of which the Bank could not have sufficiently close knowledge, and to be therefore unacceptable to the Bank on their merits, as the Bank would have to rely in fact upon the name of the first discounter alone, thus contravening both the Imperial Bank Act and sound banking principles as applied to a bank in the special position of the Imperial Bank. Another difficulty is likely to be found in the expense of book-keeping, which for a small bill is apt to be large, in proportion to the amount of the bill and to necessitate accordingly a high rate of discount. Moreover, the bills which the Marwaris describe as accommodation-bills discounted by the Bank are believed to be genuine trade-bills although not identified with particular goods ; the parties to them are known by the Bank to be doing the kind of trade for which the bills are drawn. Some financiers too discount neither trade-bills nor finance-bills with the banks, but prefer to take advances by way of overdraft so that they need only pay interest upon so much credit as they need from day to day. We look for a solution of all the difficulties of this matter to the establishment all over Burma of branches of a bank of issue, as set out in Chapter XIX, as means of encouraging the use of bills of exchange by providing facilities for re-discount even of small bills, while regulating the volume of currency and credit in accordance with the volume of trade. Discounts of small bills would still yield little or no direct profit to the

* See also paragraph 485

bank ; but in the long run both the bank and the country would profit by the resulting larger use of bills because that would permit better control over credit. Other means to the encouragement of the use of bills are the reduction of stamp-duty, the provision of standard forms for bills and the application of the Negotiable Instruments Act to bills in Burmese. These means will now be considered.

340. **Stamp-duty on Usance Hundis.**—Usance hundis having a period of less than one year must bear a stamp of value according to the prescribed scale which comes to roughly three annas for every Rs. 200 up to Rs. 2,500 and then by steps of Rs. 2'25 to Rs. 10,000 and by larger steps after that. After Rs. 30,000 the steps are regularly Rs. 9 for every Rs. 10,000. In Great Britain the stamp-duty on a bill of exchange is equivalent to only eight annas per Rs. 1,000, and is therefore between one-half and one-third of the duty in India and Burma and it rises by smaller steps. The Indian Taxation Enquiry Committee in 1926 recommended a reduction of the duty in India and Burma.

341. To a large extent the duty is evaded in both India and Burma by using promissory notes payable on demand, *i.e.*, *on-demands* or *D. P. Notes*. Indeed, when the Government of India arranged to take bills from the Imperial Bank to hold as support for currency notes, there was a difficulty because usance hundis were not customarily used, and the Government of India had to pay the stamp-duty to enable the Imperial Bank to persuade its customers to give usance hundis liable to large stamp-duty instead of on-demands liable to a small duty of one to four annas*. It is undesirable that documents should differ so widely from the actual contracts between the parties.

342. If a controlled credit system is to be established the use of usance bills of exchange (or hundis) should be increased and become the ordinary mode of financing trade. It seems therefore apparent that a rate of stamp-duty upon such bills two or three times that in force in Great Britain must be a mistake. Moreover, so long as the duty on usance bills is large and that on demand bills is small, many bills will be drawn as demand bills with an understanding or oral agreement that demand will be postponed for some period ; while this is the case the rate of stamp-duty on usance bills must be largely ineffective.

343. We think the duty on bills of exchange for a period of less than nine months should be reduced to one anna per Rs. 250 or part of Rs. 250. There will still be an advantage of less stamp-duty for promissory-notes or bills payable on demand than for usance notes or bills ; but it will be much smaller than now, and the advantage of using documents expressing the real contract may be sufficient to get them used. If experience shows this is not the case, the stamp-duty on usance bills must be still

* Reply by the Controller of the Currency to Question 996 before the Royal Commission on Indian Currency and Finance, 1926.

further reduced, since an increase in the stamp-duty on demand bills and demand promissory-notes would be impracticable. Item (b) of Article 13 of Schedule I of the Indian Stamp Act should therefore be amended to fix a duty of one anna for every Rs. 250 or part thereof for bills of exchange not payable on demand but payable on or before a definite date not more than nine months after the date of drawing the bill, while item (c) of the same article should apply to all other bills payable otherwise than on demand.

344. The difficulty of providing forms for so many different rates of duty can be overcome by allowing adhesive stamps marked "usance bill" and not exceeding four in number or seven annas in value to be attached to forms of value above eight annas provided the additional stamps are defaced by a signature. The alternative plan of charging four annas for every thousand rupees or part thereof above the first thousand would invite the same practices as prevail at present, by which (for example) a bill for Rs. 2,500 is drawn in two bills for Rs. 1,000 and Rs. 1,600 costing Rs. 2-10 duty instead of one bill costing Rs. 4-8.

345. We have considered whether reduction should be confined to bills payable within three months of being drawn; but, having regard to the desirability of providing the same reduction for agricultural bills and to the difficulty of defining agricultural bills satisfactorily, we think the period should be made nine months, and that the good management of banks should be trusted to keep the periods down for non-agricultural bills. The present rates of stamp-duty might continue in force also for bills of exchange for a period exceeding nine months; but the simpler plan of fixing for bills of over nine months the same duty as for a bond would be better, because this is the rate for bills of over one year while bills for over nine months are not ordinarily drawn.

346. The rates for promissory notes may continue to be described in Article 49 of Schedule I to the Indian Stamp Act as at present, so that the same reduction of duty would apply to promissory-notes payable not on demand but after not more than nine months.

347. No change in the provision fixing the stamp-duty on bonds seems to be needed in consequence of the proposed change for usance bills up to nine months; bills of one year or a longer period bear the same duty as bonds but they are not drawn and there is no reason for encouraging people to draw them.

348. We do not think it is necessary to suggest any source of revenue to compensate for the proposed reduction of stamp-duty; the reduction will be felt for a few years, but then the resulting general increase in business will add to the revenue derived from other sources.

349. **Amendment of the Indian Stamp Act.**—At the same time as the stamp duty on bills of exchange is reduced the definition of a bill of exchange in section 2 (2) of the Indian Stamp Act, 1899, should be amended so as to include only bills of exchange (whether in

English or in any other language) as defined in the Negotiable Instruments Act. The term will then include (as it does now) all unconditional hundis of a type suitable for rediscounting by a central bank ; but the other documents now included under the term *bill of exchange* in the Indian Stamp Act should be given a new name for which the rates of duty at present in force for bills of exchange might be prescribed.

350. Burmese Bills under the Negotiable Instruments Act.—At present there are no bills of exchange in Burmese, and no promissory-notes in Burmese payable otherwise than on demand. If measures are taken to develop banking in Burma as we shall suggest in Chapter XIX, an effort must be made to develop the use of bills. For this purpose it is desirable to have a definite code of law applying to such bills without ambiguity. The considerations which required the special exemption in section 1 of the Negotiable Instruments Act for hundis in Indian languages do not apply to bills in Burmese. We recommend that the exemption mentioned should be amended so as to apply only to documents in an oriental language not indigenous to Burma.

351. The term "Hundi".—We think further that it is desirable to restrict the use of the term *hundi* in Burma (where it is a foreign term) so as to exclude all bills of exchange and promissory notes to which the Negotiable Instruments Act applies in full, whether in English or in a language indigenous to Burma. A restriction of this kind must grow by the general usage of the term ; but a start should be given it by adopting it in the Stamp Act when Burma is politically separated from India.

352. Standardisation of Bill Forms.—We think considerable advantages could be derived from the provision of a standard form of bill which (for use in Burma) might be printed in English and in Burmese on papers similar to the stamped hundi-papers now provided. But we are averse to making the use of the standard form compulsory. If the form provided is a good one it will win its way without compulsion ; if its use is voluntary its popularity will be continually a gauge of its suitability. We think it inadvisable to attempt to confine all the multifarious activities of the country which use bills of exchange to one narrow groove, and that any rule prescribing an inconvenient standard form compulsorily will be evaded by an ostensible modification of the contract in some unimportant way or will defeat the efforts made to popularise bills. Blank forms bearing only a stamp as now should therefore be sold as well as the standard forms. We have not drafted a form. We think that, if the principle is accepted, it would not be difficult to frame a draft by comparison of a few forms in common use and to get it amended to the satisfaction of representatives of banks and the Chettiers and several classes of the general public.

CHAPTER XIb.—REMITTANCE.

353. Payments at a Distance.—Persons who have to pay money at a distant place, or to make money available there, frequently travel to that place carrying the necessary cash with them, or send a messenger to carry it for them. Notes are generally carried rather than rupees, because they are more convenient and meet ready acceptance. From the individual sender's point of view the practice is subject to the great disadvantage of risk ; but experience shows the risk is not very great when care is exercised in selecting the messenger, delivery is even more prompt than by letter, and, when considerable sums are remitted, the cost is less than that of sending by post-office money-order. Moreover other means of remittance are not always available. Money-orders also are not convenient for large sums. In most places transport of cash is decreasing relatively to the total amount of payments to be made, but in some places it is increasing absolutely ; large sums are still carried in certain cases as described in paragraphs 92 to 96.

354. A variation of the transmission of money by a messenger is the transmission by registered insured post. The means in use to deliver money to a person without actually transmitting money, that is to say means of remittance in the strict sense, are (i) money-orders, (ii) remittances by the aid of government balances, (iii) hundis, (iv) cheques, (v) drafts. British postal orders are also available but in fact are rarely used for internal remittance. We shall now deal with the various means of remittance in turn, prefixing some consideration of transmission by registered insured post. At the end of the chapter suggestions for new means of remittance will be considered.

355. Registered Insured Post.—The post-office does not undertake to carry letters or other packets containing coin or currency notes unless they are registered and insured ; if posted otherwise and detected they are either returned to the sender or delivered to the addressee, a fee of one rupee being collected in the latter case. The charge for insurance within India (including Burma) is two annas per Rs. 100 (or part thereof), this charge being paid in addition to a registration fee of two annas and the ordinary postage. The maximum amount to be insured in one packet is Rs. 3,000 subject to a lower maximum of Rs. 600 if posted at a branch post-office. Thus if currency notes are used the transmission by registered post is cheaper than remittance by money-order for Rs. 30, Rs. 35 or any larger sum, odd

amounts which cannot be posted in notes being sent by a money-order. Compared with money-orders too there is generally the advantage of not being limited to Rs. 600 for one transaction. For short distances carriage by a messenger may not be much more expensive ; it is always a little quicker, and, when the times of trains and steamers etc., are such that the post-office must keep the packet some time before delivering it, the special messenger may save much time. From the sender's point of view the principal defect of the registered insured post is the trouble of preparing and sealing the packet in accordance with the post-office regulations. Sometimes there is also the trouble of getting notes of large denominations to make a small packet ; and when that has been done the receiver has the trouble of changing them. There is not much difficulty about lack of post-offices doing insurance, as few remittances need to be made from small villages far from a post-office ; but this is subject to the important exception of co-operative credit societies which often lack facilities for remitting money to and from the district co-operative banks.

356. Money-orders.—Most post-offices do money-order business. The maximum amount that may be sent in one transaction is Rs. 600. The commission charged is four annas for every Rs. 25 or for any part thereof exceeding Rs. 10 ; for anything up to Rs. 10 either by itself or in addition to a multiple of Rs. 25 the commission is two annas. Roughly speaking the commission is thus one per cent made up to the next higher multiple of two annas. This high commission and the trouble of filling up the forms are the principal difficulties in money-orders for moderate sums. Delay is not really serious though of course a special messenger is quicker ; delay can often be overcome too, if the payee is in a considerable town, by paying the cost of telegraphing the order instead of posting it. The necessary restrictions upon the amount of money—which may be entrusted to a postman at one time also make money orders unsuitable for the remittance of large sums, as must be the case for any system which delivers money into the payee's hands at his residence. For small sums and many people the payment of the money at the payee's residence is a great advantage ; the payee has not to go anywhere to receive it, and has not even the trouble of sending a document to his banker to collect the payment. For some payees however, the receipt of a actual cash may be a disadvantage when the amount is not very small. In practice money-orders are not used by traders so much as other methods which they find cheaper. It has however been noticed, on looking through the records in some post-offices of money-orders issued, that the maximum sum of Rs. 600 is a fairly frequent amount ; this suggests that money-orders are used for trade more than is sometimes supposed.

357. The Postmaster-General (Burma) has kindly supplied us with

Money-orders in Burma, 1928.

Place.		Issued.	Paid.
Rangoon ...		29	26
Rest of Burma ...		84	29
All Burma ...		113	55

statistics of money-orders issued and paid in Burma in 1928, and we give an abstract of them in the margin hereby, our figures representing millions of rupees. The average value per transaction is not known statistically ; but it was believed by a recent Postmaster-General (Burma) to be about Rs. 40. The excess of the value of orders

issued in Burma above those paid in Burma is striking and is due to the large amount remitted to India every year.

358. Statistics of these remittances by money-order to India for a period of 18 months including all the year 1928 are available owing to a special enquiry made by the postal department in 1929 ; they are published in the second volume of this report where the figures for every head post-office and each month are given in detail. The total amount in the year 1928 exceeded 66 millions of rupees. The monthly amount which thus averages $5\frac{1}{2}$ millions ranges from just under 5 millions to just over $6\frac{1}{2}$ millions. January to May appear to provide the largest monthly totals, with a peak in March which in 1928 showed 6.64 millions, equal to one-tenth of the year's total. The greater part of these remittances is made by Indians temporarily resident in Burma who are sending subsistence money to their families or are sending savings home. A curious point is the large number of these Indian remittances which are sent by telegraph ; that indeed is the usual way of sending them.

359. The difficulty of filling up the money-order forms does not arise from any complexity of the forms ; they are as simple as possible. It arises because so large a part of the post-office staff is ignorant of Burmese, although that language is used all over the country and is subject to peculiarly little local variation. Money-order forms in Burmese have been made available ; but they have not been successful because the postal officer so often cannot read Burmese. It is difficult to see how postal officers can be made to do money-order work properly without being personally responsible for the cost of mistakes. To avoid running risk the postal officer either refers the applicant to a professional writer to prepare a form in English, or he makes a new form in English himself at the dictation of the applicant. No remedy seems possible except the employment of more Burmans in the post offices ; a steady effort in this direction is being made, but there are difficulties and time is required. The trouble will still remain for Indian remitters who cannot write English, as probably none of these could write the form in Burmese. But the large amounts of remittances to India are provided chiefly by illiterates who could not fill the form in any language.

Accordingly the problem of providing for Indian remitters is best postponed till the Burmese problem has been disposed of. The issue of postal-orders, advocated below, may be of help in this matter as they require so much less writing and leave no room for doubt as to the amount of money.

360. The rate of commission is generally considered too high. It is true that it is a flat rate and covers remittances from one end of India to the other. But, as mentioned above, for moderate distances and for amounts which are not trifling, carriage by a messenger is found cheaper. We have no knowledge of the actual cost of working the money-order system ; but if the average amount of a money-order is Rs. 40 there must be a large number of money-orders of comparatively low value for which it would not be reasonable to ask for a lower charge than the two or four annas charged for commission now. On the whole, considering that the money is taken to the house of the payee and his receipt is taken back to the remitter and opportunity is given to send the payee a short message without extra charge, the charge for remittances up to, say, Rs. 50 is not high, and we do not wish to suggest any change. The proper remedy for larger remittances is the provision of banks, leaving the post-office to deal only with those transactions for which the special features of the money-order system make it most suitable. These will be small transactions as a rule, and we think the present rates of commission should continue in force, and the alternative of postal-orders be provided as suggested in paragraph 384. The question of providing banks in all parts of the country to be the main agents of remittance will be taken up in Chapter XIX.

361. The difficulty about entrusting money to the village-postmen would also be largely removed by development along these lines. The Postmaster-General (Burma) has himself suggested that a check upon the cash and the acknowledgments for money-orders paid might be made by the headman of every village on each postman's round ; but we do not think this is practicable. A plan of crediting to a savings-bank account at the request of either the remitter or the payee might be tried at selected post-offices in conjunction with a power to have amounts sent away by money-order debited to a savings-bank account ; this would be a convenience to some rural residents, would help to popularise the savings-bank and would assist in meeting the difficulty of entrusting money to postmen. The necessary details of the working of the scheme seem to be simple. Even if not much used it seems worth having.

362. A minor complaint as to the size of the acknowledgment-slip provided in the money-order form has been made. The slip at present is 4.25 inches by 3 inches, whereas the minimum size of post-card accepted by the post-office is 4.75 inches by 3 inches. These small acknowledgment-slips might be enlarged, we think to 5.0 inches by 3.5 inches, which is nearly the maximum and ordinary size of a post-card.

The consequent addition of two inches to the length of the whole form would not cause inconvenience ; the saving of trouble to the post-office in transmitting the larger acknowledgment-slip would repay the extra cost of printing and distributing the larger forms ; there would be fewer occasions of delay in transmitting slips which get mislaid by being small ; and the remitter would have the benefit of a " coupon " with a writing space of 3·5 inches by 3·25 inches instead of the present space of 1·5 inches by 2·5 inches to write a message to the payee. As this extra size of coupon would often save postage for another letter it would often be in the nature of a reduction of commission.

363. Remittances by the aid of Government Balances.—Three forms of remittance by the aid of Government balances are in use. Telegraphic transfers are telegraphic orders issued by a competent person in one place for a payment to be made from a currency chest in another place. Supply bills are orders sent by post similarly directing payment from a treasury (or sub-treasury) balance. Remittance transfer receipts are supply bills issued for the purposes of Government's own business. An exceptional use is made of remittance transfer receipts in the free remittance of funds for co-operative societies as a special privilege ; another use is the privilege (described further in paragraph 625) of free remittance given to persons who buy or sell government securities through a government treasury. Otherwise remittance transfer receipts play no part outside the government accounts and accordingly receive no further attention in this chapter.

364. The work in connection with the issue and payment of telegraphic transfers and supply bills from Rangoon (which was previously done by the Currency Office, Rangoon, and the Accountant-General's office) has been transferred to the Rangoon Branch of the Imperial Bank of India with effect from the 15th August 1929. That branch may issue to any extent telegraphic transfers and supply bills payable by the currency chest or treasury at any district headquarters in Burma, provided that the treasury balance is not reduced below a total of two lakhs of rupees for notes and coin. Other branches may issue telegraphic transfers and supply bills on currency chests and treasuries where there are no branches of the Imperial Bank, and may also pay telegraphic transfers and supply bills drawn upon them by such treasuries. Telegraphic transfers and supply bills worked through currency chests and treasuries are not issued by branches of the Imperial Bank outside Rangoon upon other branches ; telegraphic transfers and drafts of the bank itself are issued instead at the same rates as are charged in other cases for currency telegraphic transfers.

365. Treasuries can issue telegraphic transfers and supply bills on one another up to Rs. 20,000 and Rs. 10,000 respectively without the previous sanction of the Deputy Controller of the Currency (Accountant-General, Burma).

366. Telegraphic transfers and supply bills at and on sub-treasuries are not generally allowed ; but permission is granted in special cases, the principle observed being whether the sub-treasury concerned is deficit or surplus.* If deficit, the rate of premium to be charged is determined with reference to the actual cost of the remittance of the funds required ; if surplus, the usual rate of premium is charged, *viz.*, two annas per Rs. 100 for amounts less than Rs. 10,000 and one anna per Rs. 100 for sums of Rs. 10,000 and above. For telegraphic transfers a telegram charge of Rs. 2 or Rs. 3 must be paid in addition to the premium according as the telegram is to be ordinary or express.

367. A list of treasuries and sub-treasuries in Burma on which telegraphic transfers and supply bills are permitted to be drawn by the Imperial Bank of India, Rangoon, is furnished to the bank every week, with figures of the maximum limits up to which both can be issued during the week. During the busy season when the demand for telegraphic transfers is brisk, the amount shown as available at the beginning of the week is sometimes not sufficient to meet the public demand for telegraphic transfers on sub-treasuries. When such cases arise, the bank enquires of the Accountant-General if further funds are available ; if a sufficient amount of revenue has come in to cover the additional amount required, the telegraphic transfer is authorised.

368. In the case of remittances to and from sub-treasuries there is a difficulty in the frequent absences of the sub-treasury officer from his headquarters ; these are generally inevitable because he has to be an executive officer giving only part of his time to sub-treasury work. In busy parts a remedy has been found in the appointment of additional township officers. The Accountant-General also tries to meet the difficulty in the busy season by asking banks to tell him beforehand, if possible, when they will be applying for telegraphic transfers and by getting programmes from sub-treasury officers at the beginning of each month, showing their probable dates of absence during the month. Sometimes however they are called away unexpectedly. We brought to the Accountant-General's notice the fact that we had reason to believe that sub-treasury officers in some places sometimes had a surplus that could be drawn upon, but the Imperial Bank in Rangoon could not draw because it did not know of the surplus. We suggested an experiment with daily reports of balances from four important delta towns, and this is being tried at two, while a report is being sent twice a week by another.

369. **Hundis.**—The general nature of hundis and the distinction between usance hundis and demand hundis has already been described in paragraphs 325 to 328 of Chapter XA, while the succeeding part of that chapter deals with usance hundis in some detail. In this chapter

* *Deficit* and *surplus* have reference to the defect or excess of the moneys received for Government in comparison with the moneys paid out for Government.

only demand hundis are to be considered. These in Burma are written orders in any language signed by one person and addressed to another person named in the order and directing the latter unconditionally, on demand by a third person named in the order or a person to whom he has by signed endorsement on the document transferred his right to the payment, to pay the demander a sum of money definitely stated in the order. The Chettians call these documents *undial*, * or sometimes (when speaking English) *remittance hundis*. Bankers call them either *demand hundis* or *sight hundis*. The stamp-duty on demand hundis was abolished by the Indian Finance Act, 1927.

370. Origins of Demand Hundis.—Demand hundis are generally drawn by one financier upon another for remittance purposes. But large Chinese traders in distributing centres also draw hundis upon their correspondents in Rangoon and discount them with local Chettians who send them to Rangoon for collection by another Chettian there. Similarly upcountry agents of large Rangoon traders draw hundis upon their Rangoon offices and sell them to local financiers or banks to keep themselves in funds.

371. Language of Demand Hundis.—Demand hundis are generally in the language of the financiers or bank upon whom they are drawn; almost invariably the language of the drawer is the same. Tamil is the commonest language for demand hundis, owing to the large proportion of remittances which are arranged by Chettians. But English is also used extensively and Gujerati to some extent. Tamil demand hundis have English figures for the amount in the top right-hand corner in the same way as Tamil usance hundis have. No secret language or script is used.

372. Form of Demand Hundis.—A translation of a common form of Tamil demand hundi drawn by a Chettian is shown below with italics to distinguish words which are given in English even in the Tamil form. This particular form was printed with blanks to be filled in by hand. The name of the drawer and the place of drawing were printed

YWATHIT	Glory to Siva	YIVATHIT.
No. 205	The Blessing of the God Sandi Virappa.	Rs. 600.
	M.S.K.M. M.S.K.M.	
	1930, January the 4th. Sukla, Margali the 21st.	
	Pay Ko Taw or bearer on demand the sum of Rs. 600 (Rupees six hundred only) and debit the same to our account.	
Payment to be made by		
P. L. M. Raman Chettian	(Signature)	
Rangoon.		Agent of M.S.K.M.

* Pronounced in three syllables *un-dee-al*; *u* as in English *put* or in *hundi* which is also pronounced by Chettians without the initial aspirate so that it forms the first two syllables of *undial*.

both in English and in Tamil ; the amount was given in Tamil in words and figures in the body of the document and in English in figures only near the top right-hand corner ; the serial number for the issuer's office-record is given in this particular document in English only. There is usually a glorification of Siva in the middle at the top, and commonly an invocation of some special or local manifestation of Siva immediately below it as in this sample. *Sukla* and *Margali* are names of the Tamil year and month respectively.

373. Advice for Demand Hundis.—A Chettiar or other financier, on issuing a demand hundi, sends advice by post or telegraph to the drawee who must pay it. If the drawee does not receive this advice before payment is demanded, he may pay it if the payee is trusted by him or is suitably guaranteed by some other person ; otherwise payment is withheld while a reference is made to the drawer. Sometimes the advice is attached to the hundi so that it becomes largely formal ; but even so the holder has the advantage that he can carry the hundi and the advice separately so as to protect himself against theft. Demand hundis are not drawn in duplicate ; if one is lost the holder must give a bond of indemnity before he can get payment.

374. Payment of Demand Hundis.—If advice has been received payment is generally made on the day after presentation in the same way as payment is made for Chettiar cheques (see paragraph 492). If the drawer is asked to arrange for immediate payment he writes at the foot of the hundi, when issuing it, words meaning *at sight* and informs the drawee in his advice that he has done so. Hundis so marked and advised are paid immediately on presentation and are known as *darshani* hundis. Those which, not being so marked, are paid on the next day are called *kanda maru nal* hundis. About five per cent of demand hundis are *darshani* and all the rest are *kanda maru nal*.

375. Charge for Demand Hundis.—Chettians commonly charge no commission for issuing a hundi to a regular customer who takes advances or makes deposits with them. In other cases their usual commission for *kanda maru nal* hundis is two annas per Rs. 100, which is the same as the post-office rate for insurance if notes are sent by post ; but six annas and eight annas per Rs. 100 have been mentioned by some witnesses for remittances from up-country places in Lower Burma to places in Upper Burma. At Yenangyaung Chinese *kanda maru nal* hundis payable in Rangoon are discounted at 3 to 5 annas per Rs. 100 ; this charge covers interest for one week estimated to be required for the journey and collection. The charges are calculated similarly in other places. The commission may however be as low as 1 anna or $1\frac{1}{2}$ annas at Mandalay or one of the large ports. For *darshani* hundis the commission is half an anna per Rs. 100 above that for *kanda maru nal*, because the issuer gets interest for one day less in his account

with the drawee. Payment for the hundi may be made in cash or by signing a promissory note. Sometimes when a Chettiar in a place distant from Rangoon needs ready money he finds a trader willing to take a demand hundi from him and issues it free of charge.

376. There is one small class of demand hundis which though worded as *kanda maru nal* are not intended to be paid immediately. These are hundis used by Chettians in Chettinad* to draw money from Burma. In such a case they draw a demand hundi upon their Rangoon representative and discount it with another Chettiar in Chettinad ; the latter sends it to Rangoon for collection, but there is generally an understanding that a short time, not over one month, will be given before payment is demanded. This of course gives the drawee in Rangoon time to make arrangements for payment on demand. A commission of one to three annas per cent is charged for such hundis in Madras, and interest at current rate must be added to the payment in Rangoon.

377. **Ease in obtaining Demand Hundis.**—As every Chettiar outside Rangoon has a Chettiar correspondent in Rangoon there is rarely any difficulty in getting a hundi issued for a remittance either way between Rangoon and any of the two hundred and more other places in Burma where there is a Chettiar business. Difficulty never occurs at all if the outside place is one of the larger centres. At Mandalay and in the ports Marwaris Multanis and Gujeratis also traffic in hundis. For remittances between two places in Burma outside Mandalay and the ports there is sometimes a difficulty because local Chettians may not have a correspondent at the place where payment is to be made ; but this is a rare occurrence at any large centre, because generally one or other of the local Chettians has a correspondent at the market-centre of any region with which considerable trade is done. There is however a regular procedure for dealing with the difficulty if it occurs. The hundi is drawn as required upon some Chettiar at the nearest market-centre to the place where payment is to be made, and advice is sent to him as usual. With the advice is sent a hundi drawn upon a Rangoon Chettiar, so that the drawee is re-imbursed the money paid for the remittance. The drawee receives a small commission of one-half anna per Rs. 100 for transacting this business.

378. For the issue or discount of hundis payable in India it is generally necessary to have recourse to a financier in Rangoon. In some other towns there are Chettians who issue or discount hundis on or from Madras, while in Mandalay and the ports there are Marwaris Multanis and Gujeratis who traffic in hundis on or from Calcutta, Bombay and other large centres in India. Chettians also have connections with Ceylon, the Federated Malay States, the Straits Settlements and Cochin-China

* *Chettinad* is a name for the area, partly in Madras Presidency and partly in the Pudukottai State, which is the home of the Nattukkottai Chettians. See paragraph 435.

and can deal with hundis accordingly, though practically always through a Rangoon Chettiar and a Chettiar at the capital of the other country. Remittances by hundi to Siam, Java or Sumatra are a little difficult to arrange because the Chettiers have few establishments there.

379. Increase of Demand Hundis.—The use of demand hundis by traders to pay for goods bought from other parts of the country is steadily increasing, especially for goods bought in Rangoon and Mandalay. They replace now a considerable part of the currency notes which used to be carried by train or steamer in 1925-26 and earlier years.

380. Cheques.—The use of cheques is naturally limited by the paucity of banking offices. Moreover they are not generally used for remittance, which implies a delivery of money to the payee, but rather for a transfer of credit which enables the payee to draw money from his account. There is one way in which cheques come indirectly to be used for remittance work. Private persons in upcountry stations who have current accounts in Rangoon often have their salaries drawn in Rangoon and credited to those accounts; at their stations they get ready money by cashing cheques with local grocers, petrol agents and other tradesmen who have to pay in Rangoon for the things they sell. The practice saves much difficulty for both parties.

381. Drafts.—Drafts are issued in the ordinary way by the Imperial Bank of India, exchange banks and other banks upon places where they have branches or have other banks as correspondents. Every branch of the Imperial Bank issues drafts or telegraphic transfers for any amount payable at any other branch, the charges being the same as for supply bills and currency telegraphic transfers in other places. Dawsons Bank also does a considerable business of this kind through its offices at Rangoon and at eight places in the delta, charging a commission of two annas per Rs. 100 for drafts and telegraphic transfers, and four annas per Rs. 100 where payment is made against delivery of documents. In the first three months of 1930, when the paddy-crop was being marketed, the branches of Dawsons Bank outside Rangoon cashed telegraphic transfers totalling nearly three million rupees. The Pegu Central Co-operative Bank issues in Pegu drafts upon Rangoon, charging a commission of two annas per Rs. 100; some other co-operative banks do the same on a smaller scale.

382. New Methods of Remittance.—New methods suggested for remittance include postal-orders; postal cheque accounts, *giro* accounts and letters of credit.

383. **Postal-orders.**—In Great Britain postal-orders are popular although money-orders are also available. They have the disadvantage in comparison with money-orders that the holder must send to a post-office or a bank to get money for them. Really remittance by postal-order is already provided in India because British postal-orders can be bought at any post office by giving notice, and many post-offices keep them in stock, while any post-office will cash them. The disadvantage is a loss on exchange ; at the present moment, for instance, Rs. 13-15-0 will buy a postal-order for £1, but only Rs. 13-8-0 will be paid on redemption. Thus seven annas loss must be added to the commission of two annas to measure the cost as well as the postage for transmission, making a total of ten annas as compared with four annas for a money-order. But a remittance by postal-order has an advantage over remittance of notes by insured post because the sender is not restricted to multiples of five rupees, need not seal the letter so carefully, and can post the letter at any time without insurance or registration.

384. We recommend that Indian (or Burman*) postal-orders should be issued in values advancing by eight annas from one to twenty rupees, the commission being at a flat rate of one anna per order. We think that their use would grow after a time and that they would help in educating the country towards the use of cheques. At the same time they would furnish an alternative to the money-order with its high commission, and would help in meeting the difficulties of entrusting cash to the postmen and of writing out money-orders in various languages. The facilities accorded in Great Britain of making up intermediate values with postage-stamps and of collecting through banks should be provided.

385. It would probably be desirable to continue selling and cashing British postal-orders in India and Burma. These bear the same relation to foreign money-orders within the British Empire as the proposed Indian postal-orders would bear to inland money-orders. It is also convenient for persons remitting to places within the British Empire to be able to buy documents of definite value to the payee rather than documents of definite cost in rupees and of indefinite value to the payee.

386. **Postal-cheque Accounts.**—We have considered the advisability of introducing the system of postal-cheque accounts used in France and some other countries. According to this plan a money-order can be made payable to the payee's account at a post-office ; then the payment is made by credit to the account, so that the trouble and risk of sending the money to his residence is saved. Because of this saving of trouble low rates of commission are charged. We think the postal-order system will meet the case for ordinary private persons

* In case Burma is separated politically from India.

making occasional remittances, and that the special arrangements made at present for shops which send out many parcels by value-payable post meet practically all cases which the postal-order does not suit. Under these arrangements the shopkeeper enters in a single list all parcels despatched together, and it receives daily from the post-office a list of payments collected and a cheque for the total ; the list of payments also gives references to the despatching lists so that tally can easily be kept. Money-orders payable to the same shopkeepers apart from the value-payable-post transactions are included in the list of collections, and the whole arrangement could presumably be used by any person who had much money-order work. We think accordingly that there is no need to contemplate the introduction of a postal-cheque system.

387. **Giro Accounts.**—The German and some other post-offices have a *giro* system which was copied from a similar system worked by the German Reichsbank with its 500 branches and is very popular. Under this system persons who keep a balance on deposit at any office can have any amount of that balance transferred to the account of a person having a similar account at any office. The greater part of the government offices, the large banks, the Rothschilds and a large number of people doing business on a big scale had *giro* accounts with the Reichsbank in 1913 ; the post-office system was intended to provide the same facilities for people doing business in a small way. Arrangements existed before 1914 for transfers through the German post-office to persons in other countries, *e.g.* through the Swiss Postal-Cheque Office, the Austro-Hungarian Savings Banks, and the National Bank of Belgium ; and probably these arrangements have been restored. It is to be observed however that the system flourished in the Reichsbank because there was no cheque system in Germany ; in recent years the large banks have aimed at developing the cheque system, and cheques are now tending to displace the *giro* system for transfers through banks.

388. We asked the Postmaster-General (Burma) for his opinion upon the usefulness of introducing the *giro* system into Burma ; he saw no difficulty except the loss of the income of the post-office if the commission were less than that of money-orders, and the unlikelihood of the system being used much if the commission were as high as that. With regard to the loss of commission it should be observed that there would be a saving of the expense of delivering money to payees ; there would also be minimum credit-balances maintained by persons having accounts, and these would render a profit to Government by receiving no interest. But we read the history of the *giro* system in Germany as showing that it is an inferior substitute for a cheque system ; and we think it would be better to aim at a cheque system at once. We also think it would be better for such

work to be conducted by a regular banking agency, and that *giro* accounts in the post-office might, if successful, help to delay the inauguration of such an agency. Further the institution of postal-orders and our other suggestions will be enough to occupy the postal-officials for some time. Accordingly we think that the question of instituting *giro* accounts should be put aside for the present.

389. Postal Letters of Credit.—We also consulted the Postmaster-General (Burma) as to the feasibility and advisability of issuing letters of credit through the post-office; he was not prepared to say it was advisable, but he thought it feasible. Most witnesses favoured the issue, but some opposed it on the ground that the postal staff is not yet sufficiently reliable for this work. We think letters of credit might be issued by the post-office at every district headquarters for amounts up to Rs. 1,000, and that payment without limit should be made at any other post-office at a district headquarters in India or Burma and, subject to a limit of Rs. 100 in any week from Sunday to Saturday, at any post-office doing money-order business. The usual form in two parts should be used, and a photograph could be attached to each part to establish identity. Identity cards are already being sold by the post-office at one rupee each. Whenever a bank is established with approved management at any place arrangements should be made to pass this work over to the bank.

390. Importance of Remittance Facilities.—Facilities for cheap and speedy remittance of money are of great importance in every country, but they are of special importance in a country of wide extent. As we have already suggested earlier in this chapter the main solution of the problem is to be found in a system of banks, and we shall make proposals on this basis in Chapter XIX.

CHAPTER XII.—CO-OPERATIVE CREDIT.

391. **The Present Conditions.**—The co-operative credit system in Burma works under the Burma Co-operative Societies Act, 1927, and was the subject of an enquiry made in 1928-29 by a committee under Mr. H. Calvert, C.I.E., I.C.S., who was for many years Registrar of Co-operative Societies in the Punjab and more recently a member of the Royal Commission on Agriculture in India. Mr. E. P. Stocker, Agent of the Imperial Bank of India, Madras Circle, who had previously been a member of the committees on co-operation in the Central Provinces and in Madras, was also a member. Other members were Mr. H. O. Reynolds, I.C.S., U Hla Bu and U E Pe ; the two last were chairmen of certain co-operative associations. The committee prepared a report of 164 octavo pages with 309 recommendations. The general effect of the report was that the system required a thorough purging ; the Registrar and his staff are so overworked in carrying out that purging that little or no constructive work is now going on. About 1,600 agricultural credit societies of a total of about 4,000 are in process of liquidation. The Burma Provincial Co-operative Bank, Ltd., which had formerly been the apex of the system and was found to have been working at a loss for several years, has not been put into liquidation ; but its business as an apex bank was ordered to be gradually wound up. No more loans are being issued by it, and its staff has already been reduced to a small part of its former size. Government has undertaken to contribute sufficient to repay all its depositors in full ; and the cost of this is estimated at 35 lakhs of rupees. Under these circumstances a detailed account of the co-operative system would be useless. The past can be studied in the report of the Calvert Committee ; the present is a time of general unsettlement. Statistics of the number of societies, their capital and advances are given in the second volume of this report for convenience of reference in the future.

392. The causes of the crisis were set out in the Calvert Committee's report. There was a special misfortune in a series of bad harvests in Upper Burma from 1918 to 1924, and especially in the Sagaing District in which one-quarter of the total losses of the apex bank arose. There were various mistakes of method ; *e.g.* a failure to train a sufficient staff sufficiently, and general delay in the liquidation of bad societies. But the immediate causes appear to us to have been (i) a neglect of fundamental banking principles in failure to confine loans to proper amounts and uses, (ii) a neglect, largely through a mistaken preference for mortgage security, of the co-operative principle of lending only as the character and capacity of the borrowers and their mutual

contact and influence with and over one another justify, (iii) an insufficient connection with the commercial banking system of the country, and (iv) an excessive tenderness in dealing with members and societies that did not repay their loans. Co-operative credit works like all other credit upon the basis that generally loans are used productively and the income obtained by using them is applied to repay them. The only magic about it is in the mental effects upon borrowers of no considerable credit individually, who are able by association and mutual support to inspire confidence in lenders and consequently to obtain enlarged credit. They can only inspire that confidence by holding fast to the basis of sound business methods. Other important defects of the societies were the practice of locking up capital in long-term loans and the failure to collect local deposits ; but on the both these heads special difficulties must be admitted.

393. Restriction of Loans.—There was division of opinion in the Calvert Committee as to the objects and periods for which loans should be granted by primary agricultural credit societies. Messrs. Stocker and Reynolds, dissenting from the opinion of the majority of the committee, advocated the restriction of co-operative credit to crop-loans* issued in instalments as the money was actually required. They thought that in the end this system would result in greater benefit to the country, and in particular to the cultivators, than a system which permitted loans for longer periods and other purposes. Government has not adopted the view that co-operative credit should be restricted to crop-loans ; it has directed however that crop-loans should be regarded as the principal business of the primary agricultural societies, and that, while loans for two or three years should continue to be provided, great care should be exercised in the grant of these loans.

394. The whole Calvert Committee agreed, and we also have agreed, that crop-loans should be the principal business of primary societies and that all loans should be more adequately controlled. Loans to provide ordinary food and clothing for the cultivator are as legitimate as loans to buy seed ; and loans to carry out a funeral in a reasonable way may be so too. But whatever the specific purpose of the loan it should be stated by the applicant, and the amount asked for it should be considered by the committee and restricted to immediate requirements for proper purposes. No loan to be used by instalments through the season should be given all at once. A general description of the purpose, such as, "cultivation" or "food" should never be tolerated. The applicant should show, for instance, how many transplanters are to be paid and fed ; and the committee of the society should compare the statement in the light of its local knowledge with the area of land concerned. The applicant's own resources should be known to the

* See paragraph 97 (and especially its last sentence) for our interpretation of this term ; also paragraph 122.

committee and considered ; indeed he ought to have deposited with the society all money obtained by selling his previous crop and not needed for immediate purposes. Moreover the actual application of every loan should be watched. In all this the society will be helped if it sees that its loans are promptly issued and promptly and vigorously recovered.

395. It is an essential character of primary agricultural credit societies that each should be confined to a small area. If this is done there should be no great inconvenience to the members in making frequent applications or to the committee in meeting frequently and in keeping watch over the use of loans. In compact villages payments might even be disbursed in many cases by the committee on behalf of the borrower ; but there are areas in which the population is so scattered, either always or during the cultivation season, that this would be difficult. In the delta too it is not easy to know what one's neighbours are doing during the rainy season of cultivation. A matter often overlooked is the smallness of an ordinary primary society, the average number of members being about 21, which is much less than the average number in some countries regarded as models in co-operative matters. While this small membership limits the demands upon the committee's attention for supervision of the loans, it also restricts the averaging of risks and the supply of suitable members of the committee. But these drawbacks must be accepted. The area of each society should be kept so small that supervision can be efficient ; and the aim should be to interest the people of that small area in such a way that all become members and are willing to take their turns as committee-members. The practice of frequent activity of the society through giving out loans in necessary instalments would go far to keep interest in the society alive. At the same time the number of societies must be kept down to the number the department can supervise and train thoroughly ; there must be no impatience to increase the number of societies. If quantity is sacrificed to quality for a time, it will not be many years before there are more societies working than the opposite policy could yield.

396. We support also the unanimous recommendations of the Calvert Committee that repayment of loans at due date should be strictly enforced, and that extensions of time should be permitted only in cases of real necessity. We think a little hardship arising out of repayment should not be a sufficient ground for extension ; but we appreciate the difficulty of inculcating this doctrine. If necessary an example should be made of a few defaulters by getting an order for payment either from a Civil Court or from arbitrators*. We further support the Calvert Committee's recommendation that a separate account of loans for which the time of repayment has been postponed should be kept.

* In Burma the view has been taken until recently that the compulsory arbitration section of the Act did not apply to cases of default by members of a society except to determine the amount in default. Whether this was right or wrong, Burma has now fallen into line with other provinces by recognizing arbitration as a means to recovery of loans.

397. Excessive expenditure on funerals and ceremonies should not be encouraged by the grant of loans. The custom is that all in the village and neighbourhood contribute a trifling sum towards the expenses ; large expenditure by the principal host is therefore unnecessary and could be restricted as a rule, perhaps always, to such an amount as could properly be covered by a loan strictly repayable at next harvest ; while in many cases a loan should be refused or a warning given that future credit for productive purposes would be restricted if excessive expenditure is incurred even without borrowing,

398. If all this could be achieved there would be no room left for disagreement about the absolute restriction to crop-loans. We suggest that a uniform prohibition of all loans extending beyond the next harvest, as advocated by Messrs. Stocker and Reynolds, may not be advisable throughout the country, but might be applied in some parts or to some societies. The principal question is the purchase of cattle. We are disposed to think that a society whose members generally employ only one yoke or two yoke of cattle each should be allowed to issue loans to buy cattle, while in societies in which the members mostly employ three or four yoke of cattle such loans should be forbidden. The reason for the distinction is that in the latter case the purchase of a yoke of cattle is almost an annual event. We recognize the objections to members borrowing for the purchase of cattle from other lenders than their society ; but the evil of this is less than the evil of loans for unduly long periods and of slackness in repayment. Having regard to the risk that other loans (*i.e.* not for buying cattle) not completely repayable at the first harvest will be abused, we consider that they should be prohibited ; then expenses of various kinds will be subject to an influence keeping them down to a reasonable level. Moreover, whether a society grants loans to buy cattle or not, it should restrict the credit for all purposes of any member who does not treat his cattle in the way calculated to be most economical by protecting them against disease and keeping them in the most efficient condition. There should of course be the same restriction of credit (or expulsion from membership) for any member who manages his affairs extravagantly.

399. It will naturally be understood that the foregoing relates to the purchase of cattle by agriculturists for use in cultivating their land. The purchase and breeding of cattle as cattle-dealers is on an entirely different footing.

400. **Co-operative Self-Government.**—Behind the controversy about restriction to crops-loans there is a more general and even more difficult question of the control to be exercised by the Registrar and his officers. One could for instance conceive an organization in which Government officers took an active part in the administration of societies,

and in particular visited borrowers at harvest-time and either actually collected the payments due to a society or took the members to the society's office to make their payments. This would not be genuine co-operation ; but it might be more suitable than co-operation to the conditions of some countries, including amongst those conditions the character of the people. It would be a mistake to make a fetish of co-operation in the sense of a plan of self-governing societies ; but we have no doubt that in Burma this is the proper basis on which to build. In Burma the character of the people is such that a system of official control cannot succeed. The fundamental policy must be that of teaching societies how best to manage their business and securing their adoption of the advice by showing its soundness. Departmental officers should not control the granting of loans ; that lesson should be learned through insistence by the society's creditors upon repayments. Nevertheless there may be rules setting reasonable bounds to the sphere within which the society exercises its independence and self-government. The restrictions upon loans for periods exceeding one year are amongst these.

401. The rules could be statutory rules made by Government. But we should prefer to see them as rules of practice made by the central banks which finance the societies. These banks should treat the societies precisely as the societies should treat their members. Even if default of one member makes the situation difficult for a society, the central bank should ordinarily insist upon receiving its repayments.

402. We understand from U Ba Maung* that there is a growing feeling amongst co-operators that Government should either cease to exercise control over societies, and should limit the Registrar's functions to registration and seeing that the Act is complied with, or should in some way undertake much more close and detailed control than now. They think the methods hitherto pursued and all methods of partial control are bound to be unsatisfactory. We are agreed that, without going so far as the former alternative in one sudden step, the Government should lean to that side and aim at reaching that position as soon as possible. We doubt, however, whether co-operators as a body will be willing to accept all the implications of this, leaving Government to pay only the cost of registration and of educational work amongst the societies and propaganda outside them.

403. **Agricultural Charge.**—Amongst the suggestions of the Calvert Committee was that of considering the introduction of legislation on the model of the English Agricultural Credits Act, 1928, to permit the creation of an agricultural charge in favour of banks. We regret that we have been unable to give this suggestion the consideration it deserves. In its resolution on the Calvert Committee's report the Government of Burma undertook to have it examined.

* A member of the committee.

404. Rates of Interest upon Advances.—Practically all co-operative credit societies charge interest upon advances to members at 15 per cent per annum ; the exceptions are very few and charge 18 per cent. The central banks charge the societies 10 per cent.

405. Deposits.—A serious defect in the co-operative system which has already been mentioned is the failure of primary societies to collect local deposits. The statistics appended to the annual reports of the Registrar include amounts which are not real deposits. For genuine deposits by members a total of ten thousand rupees for the whole country has been described by the Registrar as an extravagant estimate. Amongst the four districts which are believed to have the highest amounts one had at the beginning of 1929 a total of Rs. 2,765 while the other three made up only Rs. 891 between them. Similarly for deposits by non-members the total does not exceed fifty thousand rupees. Only one society in forty, that is to say, about one hundred societies altogether, have such deposits at all ; some deposits are as large as Rs. 5,000, but many more are between Rs. 200 and Rs. 500 and some are less. There is not much hope of a great improvement in this matter while the ordinary rates of interest in the country are so high. A number of societies which have substantial reserves and cannot fail to inspire confidence are unsuccessful in collecting deposits. People are not willing to deposit on so low a rate of interest as 12 per cent per annum, which is the rate prescribed in the byelaws of most societies for fixed deposits, when a so much larger profit can be made by lending to neighbours. On the other hand societies are not willing to accept deposits at so high a rate as 12 per cent while they can borrow from a central bank at 10 per cent, and naturally therefore are not prepared to offer rates competing with those the depositors can obtain by moneylending. Some depositors are willing however to lend at the rates offered because they are relieved of the bother that moneylending involves. Accordingly, as the criticisms of depositors conduce to better working of societies, an effort should be made to increase both the deposits received from non-members and those received from members, but especially the latter. Another difficulty in many societies has been a lack of confidence on the part of the public ; internal improvement in the societies, and especially rigorous collection of dues, is clearly required as well as propaganda for savings. Some urban societies have collected deposits successfully by sending a collector round the bazaar to receive the deposits ; they thus collect small sums which though substantial in their total are individually too small for depositors to go to the bank's office to pay them in.

406. At our request the Registrar kindly collected statistics of the total deposits in co-operative banks (including central banks and urban banks but not primary agricultural societies) towards the end of 1929.

His figures were as follows, the numbers representing thousands of rupees :—

Class of Depositor.				Fixed.	Current accounts.	Savings Bank.	Total.
1. Burmans and Karens ...	...	...	...	1916	161	48.5	2566
2. Europeans and Anglo-Indians	(a) Domiciled ...	...	...	656	3	21	681
	(b) Others ...	...	...	252	1	1	255
3. Indians ...	...	...	...	213	16	68	298
4. Chinese ...	...	...	...	30	1	8	40
5. All others ...	...	...	...	204	..	7	211
Grand Total				3273	183	594	4050

A considerable proportion of these deposits consists of funds collected for various social purposes ; e.g. scholarship funds established as memorials of distinguished men, reserves of clubs and societies.

407. Current Accounts.—Some of the district central banks receive deposits on current account, and they have thus done useful work in teaching the local public the use of cheques and banking practice generally. The four Burman members of the committee, constituting a majority * think that although safeguards are necessary, especially while the number of accounts is too small to give a fairly steady average of total deposits, the banks should continue to receive such deposits provided that they have easy access to liquid resources in a branch of the Imperial Bank or a stable commercial bank or, best of all, a genuine central bank with control of credit and currency. These liquid resources should be definitely assured, not liable to be cut off at a time of monetary stringency, and (as recommended by the MacLagan Committee on Co-operation in India) they should equal the whole amount of the current account deposits. The banks should also protect themselves against large demands for cash by fixing a reasonable maximum for the amount to be drawn without giving one or more day's notice.

408. The four Burman members of the committee are also of opinion that in the collection of deposits co-operative banks will be able to compete successfully with commercial banks in the same town. They point out that many people give their current accounts to the Chettiers in towns where commercial banks are working, and they think that many will prefer to give co-operative banks their deposits because

* Only six members of the committee took part in preparing this chapter.

they wish to help the co-operative movement. Only two co-operative central banks (Pegu and Promé) have current accounts yet; in both cases the managers have shown themselves competent to deal with such business. So long therefore as the banks are able to make arrangements for liquid resource these members think they should be free to accept current accounts without restrictions. Two other members could not attend for the discussion of this question and the remaining two took an opposite view.

Minority View.—Mr. Dawson and the Chairman disagree with the Burmese members in this matter, although they do not attach less importance to the provision of banking facilities in as many places in the country as possible, and to the education of the people in banking. These members admit that nothing very serious can happen so long as the current account business is on a small scale; but they think it will not be of much use to the bank on that scale, and that if it grows it is likely to be dangerous because the keeping of current accounts presupposes a thorough knowledge of the law and practice of banking in relation to cheques and other matters. If central banks with current accounts increase in number they cannot expect to continue getting managers who have this knowledge in addition to the large amount of knowledge they need to have for conducting their own special business. Again, unless the maximum to be drawn without notice is fixed very low, the bank acting as a reserve bank must be in the same town to be relied upon in case an unusual demand should be made just before that bank's closing time. Further, while the special features in the constitution of co-operative banks are helpful in facilitating the dispensing of loans and enhance the safety of loans by the facilities they give in the collection of dues, these banks must find it especially difficult to manage current accounts, because, with agricultural loans forming the main part of their advances, they are more directly and more seriously affected by the climatic vicissitudes of agriculture and have less elasticity than commercial banks. A further consideration is that if, as both the MacLagan All-India Committee on Co-operation and the Calvert Committee on Co-operation in Burma recommended, liquid resource equal to the total amount of deposits is maintained, there can be little or no profit for the co-operative banks from these accounts. Moreover (this minority thinks) as soon as commercial banks are established they are likely, in spite of a sentimental regard by some for the co-operative banks, to attract deposits more strongly; if this is so, it would be better for co-operative banks to concentrate upon other sources of money in which there is less risk of the supply dwindling away.

All these considerations together show that co-operative banks, instead of themselves taking deposits on current account, would be better advised to manage their business so as to enhance their credit with commercial banks which could discount their bills and to some extent average the ups and downs of agricultural business with those of a wider business. Meanwhile the co-operative banks should increase their collections of savings deposits and fixed deposits. The present rates of interest for such deposits are high, and in spite of the increased difficulty in attracting deposits an endeavour should be made to reduce those rates gradually. Savings-bank accounts with a low limit to the amount

that may be withdrawn at very short notice would satisfy a good part of the public need of some place of safe custody for moneys not required for immediate use, and would not have the dangers arising from the use of cheques. Even this business should be limited according to the facilities for liquid resource. The urgent need for current account deposits to economize the use of currency and expand the basis of credit requires the establishment of banks designed for this business, as will be advocated in Chapter XIX. Such banks and the co-operative banks will each have their own place to fill and their own functions to perform. Accordingly the two members whose views are expressed here, differing from the majority but agreeing with the Maclagan Committee upon Co-operation in India and the committees which recently enquired into co-operation in Madras and in Burma, recommend that district central banks should not receive deposits on current account.

409. In urban banks the position is a little different. Such banks might accept deposits on current account, provided that such deposits are only received from members, and genuine liquid resource is maintained up to 75 per cent of the total credit balance, and suitable restrictions are made with regard to the maximum to be withdrawn without sufficient notice to allow the bank to obtain cash. The condition as to the necessary provision of liquid resource and particularly of cash, must forbid the use of current accounts in most places.

410. **Remittances.**—At present co-operative societies in Burma have the privilege of making remittances through government treasuries and some sub-treasuries by Remittance Transfer Receipts ("R. T. R.", see paragraph 363) or cash orders free of charge, subject to a minimum of Rs. 150 being sent. In places where the treasury is managed by the Imperial Bank of India the same privilege is given by that bank. We have no recommendations to make in this connection. There is a request from some co-operators that the minimum limit should be reduced to Rs. 15 or removed altogether. Otherwise the only complaint made is on the score of delay.

411. Co-operative societies in some other provinces have the privilege that three-quarters of the commission on remittances by post-office money-order is paid by the local government, and there is a general request by co-operators that the same plan should be adopted in Burma. The Mandalay district committee has suggested that encouragement of remittance by post-office money-order would obviate burdening the treasuries with excessive remittance work for co-operative societies. With the present rates of money-order commission there is a natural desire by societies to let three or four members make a journey to the central bank just before the cultivating season begins, and to take out at once all the loans needed for the year's work. Necessarily the society must then disburse the whole year's loans at once. The plan recommended above of giving only such loans as are needed immediately can only be worked if remittances to some fairly near place can be made

cheaply. We recommend that the rates of money-order commission for all co-operative remittances should be reduced to one-quarter of the present rates, subject to fractions of an anna being reckoned as whole annas.

412. Exemptions from Stamp-duty and Registration Fees.—Government has remitted the stamp-duty upon (a) all documents executed by a co-operative society,* and (b) all documents relating to the business of a co-operative society and executed by an officer or member of that society. Government has also remitted all fees payable under the Registration of Deeds Act by or on behalf of a co-operative society or in respect of any document relating to the business of a co-operative society and executed by any officer or member of that society.

413. We do not wish to suggest any modification of these concessions except to add an exemption from stamp-duty of arbitrators' awards when either party to the arbitration is a co-operative society. The present rate of duty is on the same scale as the duty on a bond, that is, roughly one-half per cent, subject to a maximum of five rupees. The object of the exemption is the removal of a small difficulty met by societies in recovering loans from their members.

414. Co-operative Societies and Income-tax.—At present co-operative societies are exempt from income-tax in respect of their profits, and their members are exempt from income-tax in respect of dividends or other payments received by them from the societies on account of profits. The societies must however pay income-tax in respect of interest received on account of securities held by them. All provincial banking enquiry committees were asked to study the question of exemptions from income-tax in relation to co-operative societies,* and we included questions about this subject in our questionnaire accordingly. Practically all co-operators and some others ask for the present exemptions to be retained and for a further exemption to be given in respect of interest on securities held by co-operative societies. Half of this committee, consisting of all the four Burman members, support this proposal, subject to the restriction that the securities held should be those issued by Government or a local authority. Three of these members recommend also exemption from income-tax of the interest paid by co-operative societies in respect of debentures issued by them, including debentures of co-operative land-mortgage banks. Two non-Burman members could not attend for the discussion of this question; the other two took a different view.

Minority View.—Mr. Dawson and the Chairman are unable to support the proposals of the Burman members. They have been guided largely by a study of the majority report¹ and the several minority reports² of the

* See paragraph 9.

Royal Commission on Income-tax which studied the same question in England in 1920. They have considered also the changes in the constitution of the body of individuals who, either as members of a society itself or as members of societies which are such members, enjoy the profit made. These individuals die or otherwise depart without taking away what they have contributed to the society's reserves ; new individuals come in and get the benefit of those reserves in a reduction of the net cost of services goods or loans obtained from the society. They think the adoption of the following principles would cause little difference in the assessments now made, but would relieve the whole co-operative system of risk of the hostility which special privileges are liable to excite. Accordingly they recommend as follows :—

- (a) a co-operative society should be treated exactly as a company in assessment to income-tax, dividends upon purchases or upon interest paid being reckoned as discounts (and therefore as expenses of the business) whether paid to members or to non-members ;
- (b) individual members of societies should be taxed upon their incomes, including interest on shares in a society, in exactly the same way as other persons ;
- (c) dividend upon purchases or upon interest paid is not income for the purchaser or borrower, whether he is an individual or a society ; but, when the price or interest on which the dividend is paid is charged as an expense in estimating assessable income, the net amount (calculated by deducting the dividend from the original price or interest) should be charged ;
- (d) whether income-tax due from members in respect of payments made to them by societies should be deducted at the time of payment is merely a matter of administrative convenience ;
- (e) the bylaws of a society with respect to the mode of investment of any of its funds are irrelevant in determining the assessment to income-tax ;
- (f) interest upon debentures issued by co-operative societies (including co-operative land-mortgage banks) should not be exempt from income-tax ; but, in case Burma is not separated politically from India, an equitable arrangement should be made for the refund to the Government of Burma of an amount approximately equal to any moneys received by the Government of India as income-tax upon any interest paid by the Government of Burma under a guarantee of such debentures.

415. Debentures as Trustee Securities.—Our divergent views on the inclusion of debentures of co-operative land-mortgage banks in the list of securities in which trust-moneys may be invested have already been stated in paragraph 204. For other co-operative societies we are agreed that such inclusion is not desirable ; we would rather not encourage the use of debentures by other types of societies, but would expect them to collect short-term money without competing with the land-mortgage banks as they would if they issued debentures.

416. Post-office Savings-bank and Co-operative Societies.—We are unable to support the proposal made in some quarters that the interest on deposits by co-operative societies with post-office savings-banks should be one per cent higher than the usual rate granted by those banks to the public. Neither do we recommend any scheme for lending the balances of the post-office savings-bank to co-operative societies. If the moneys of the post-office savings-bank are not available for Government's use, Government must tap the supply of capital in some other way ; then there would not be a net advantage in the amount of capital available for non-governmental purposes. On the other hand the post-office savings-bank serves a purpose in standing ready for those who will accept low interest so long as they get the best security.

417. Deposit of Public Funds with Co-operative Societies.—For the reasons given in paragraph 408 the Burman members think the current accounts of municipalities should not generally be kept by co-operative banks unless they have suitable facilities for liquid resource, while a minority of us is opposed to these banks having any current accounts at all. We are agreed that no interest should be paid on such current accounts. Fixed deposits and savings-bank deposits are on a different footing ; we agree that such deposits with co-operative banks should be permitted provided that either the bank has been approved by Government after suitable examination or the bank gives as security government paper which at market-value allows a margin of five per cent. In the latter case the interest on the deposits should be very low. If the English system of deposits repayable at seven days' notice is used to replace both fixed-term deposits and savings-bank deposits, the rate should be nominal, say one to two per cent per annum. Provident funds and the like are in the nature of trust funds, but have the advantage for the bank that net withdrawals can be accurately estimated in advance ; for these the bank should give government security as above and interest at the rate of the post-office savings-bank.

418. Joint-stock Banks and Co-operative Banks.—No loud complaints have been made by joint-stock banks of competition by the co-operative banks in Burma. So far as advances are concerned it is recognized that the co-operative banks occupy a special field and that no question of competition arises. There was however a feeling amongst managers of joint-stock banks that the Burma Provincial Co-operative Bank competed with them unfairly and improperly in the collection of deposits ; they said that, although Government had given no explicit guarantee for deposits in that bank and had even denied its responsibility for them, the public made the deposits with the belief that Government had incurred for them a moral responsibility which it

would not shirk, and that accordingly the bank, by paying higher rates of interest than it would have paid with an explicit guarantee by Government, prejudiced the other banks in the collection of deposits. But as the Burma Provincial Co-operative Bank has now ceased to accept deposits, we refer those interested to the Calvert Committee's report. There is no complaint on the score of competition about the rates of interest offered by other co-operative banks, although they are generally even higher.

+19. Connection with the Money-market.—Some of the central banks made arrangements for advances for use as crop-loans and as liquid resource with the Imperial Bank of India even five or six years before the Burma Provincial Co-operative Bank ceased to function as the apex bank. Advances have been made as overdrafts on the security of Government paper at bank-rate and on the security of promissory notes of the banks supported by promissory notes of societies made in favour of the banks and endorsed to the Imperial Bank. In the latter case interest is at one per cent above the bank-rate with a minimum of six per cent per annum, while the advance may not exceed 75 per cent of the amount of the notes. In both cases interest is calculated on the daily debit balance and is payable monthly. These arrangements have been used rather more since the Burma Provincial Co-operative Bank ceased to function as apex bank, but the total of advances is still only two lakhs.

420. A connection of this kind with the general banking system is desirable, and, subject to caution against inflation of credit, an effort should be made to increase largely the proportion of working capital which can be obtained in this way. With this object every effort should be made to make the paper of co-operative banks more liquid than now as an investment for commercial banks and the central bank. The rates of interest paid on deposits should be gradually reduced as far as the accommodation given by the commercial banks or the central bank and the need to maintain the supply of working capital permit. If a larger amount of working capital can be obtained from the general banking system it will not be necessary to collect so much by deposits ; thus the rates of interest offered for deposits can be reduced. As much as possible of the benefit of the reduced rates should be passed on to the primary societies. With laxity in recovery of loans a low rate of interest in societies would be dangerous now, because borrowers would leave loans that bear low interest till last when repaying. But with traditions of rigorous collection being built up the case will be different. Then low interest on loans will stimulate loyalty to the society, kindle a more vivid appreciation of its work and keep interest in it alive, and will attract new members and consequently compel other lenders to reduce their rates of interest. Such a connection with the commercial banking

system and the central credit controlling agency (whatever form that may take) would be of the utmost value in maintaining proper standards of credit-worthiness as well as in providing a supply of capital at a reasonable cost, and in balancing the distribution of the available capital between the respective demands of agriculture industry and trade. In Chapter XIX we shall make proposals for the opening of banks which will be able to assist in financing co-operative societies through the local co-operative banks with these objects in view.

421. Co-operation and State-aid.—We have already touched upon this matter in dealing with co-operative self-government in paragraph 400. As a special measure at the present juncture Government is making advances to sound co-operative societies which used to rely upon the Burma Provincial Co-operative Bank for funds to enable them to grant loans to their members. We approve this ; but we reject the view, advocated for many years by many co-operators in Burma, that Government should supply working capital on a large scale for co-operative banks by making loans to them or guaranteeing loans made to them by other banks.

422. The four Burman members think however that the temporary assistance should be carried some way, and should be developed until the co-operative system recovers its strength and develops a vigorous life.

Minority View.—Mr. Dawson and the Chairman would be more restrictive, and while approving the help given at the moment would like to see it gradually reduced year by year subject to fluctuations corresponding to the profitableness of the previous year's cultivation. They think this policy would be more effective in inducing sound growth of the system than a more generous policy.

423. All-India Committee on Co-operation.—In view of the results reached by the committees on co-operation in the United Provinces, Madras and Burma in 1926, 1928 and 1929 respectively, we suggest consideration whether a committee of the character of the MacLagan Committee, which reported in 1915, should not now make an examination of co-operation in all India.

CHAPTER XIII.A.—INDIGENOUS BANKING.

424. **Indigenous Banking is Indian Banking.**—Generally in Burma the term *indigenous* is applied only to what is native to Burma and excludes all importations from the rest of India into Burma ; if that meaning of *indigenous* is combined with any interpretation of *banking* which distinguishes it from mere moneylending (as we wish to distinguish in this chapter) there is no indigenous banking in Burma. The Chettiars who are of such great importance are not regarded by anybody in Burma as indigenous ; the greater part of their capital is owned in India, the permanent residences of the partners of their firms are in India. Every native of Burma in fact regards the Chettiars as no less foreign than the exchange banks. But as this report is a contribution from one province to a comprehensive survey of all India, the term *indigenous finance* is used to mean banking and moneylending according to traditional Indian customs without the general adoption of the methods of Europe or America. None of the indigenous financiers in Burma who belongs to any race indigenous to Burma performs any of a banker's functions except the lending of money. Neither do the Chinese or any other non-Indian race apart from the two Chinese banks in Rangoon which are conducted on western lines.

425. **Indigenous Bankers.**—Thus the indigenous bankers in Burma are all Indians. The principal classes of them are the Chettiars, Marwaris, Multanis and Gujeratis ; other Indian financiers are pure moneylenders and are generally people engaged primarily in some other business and lending some surplus money, in many cases on a petty scale, to clerks and Indian artisans for domestic purposes. Some of the Marwaris and some of the Gujeratis are Jains by religion ; there are five Jains of each of these classes in Rangoon. There seem to be no Mussalman bankers as distinct from moneylenders.

426. There is a money-market in Mogul Street, Rangoon ; and this is linked up with Calcutta, Bombay, Madras, Colombo, Penang, Singapore and Saigon. The main centres of indigenous banking in Burma are Rangoon, Mandalay, Bassein, Henzada, Moulmein and Akyab..

427. The Chettiars are much the most important of the indigenous bankers in Burma and the most highly organised. Akyab is the only large town in Burma in which the Chettiars are not the most important of the indigenous bankers, the principal ones there being the Marwaris. Chettiars are found in most parts of Burma, and the next chapter of this report will be devoted to them. The Marwaris, Multanis and Gujeratis are few in comparison with Chettiars and are confined to Mandalay and Prome and the ports of Rangoon, Moulmein, Bassein and Akyab. They are almost confined in fact to Rangoon ; but even there all three kinds taken together cannot be compared with the Chettiars in importance, although they include a few large bankers amongst them.

Their business in Burma is related to the commercial life of the towns in which they live, and is conducted on the same lines as that of their fellows in India ; they have nothing to do with agriculture or rural life, and resemble therefore more particularly their fellows in large Indian ports.

428. The Marwaris.—The Marwaris belong to a region called Marwar which includes the states of Jodhpur, Jaipur and Bikanir in Rajputana. They do business chiefly there and in Bombay and Bengal ; their most important centre is Calcutta where they are the principal class of Indian financiers. In Rangoon there is a Marwari Association with about 400 members ; but only six of these are bankers. Indeed even the Marwari bankers do not style themselves as such, but call themselves general merchants. The reason for this is probably that they have developed out of merchants who added moneylending to their activities ; but those in Rangoon say now that there is an advantage in using a humble description. As a guess we suggest they think the description of " banker " would impress the Income-tax Department too much. Their chief business is the discounting of bills for traders and bazaar-sellers in Rangoon, chiefly bills for piece-goods imported from Bombay or Lancashire. They say that 95 per cent. of their bills relate to piece-goods. As they have nothing to do with accommodation-bills, one finds, in turning over a Marwari's portfolio, bills for all sorts of sums with odd rupees annas and pies and not merely bills for even hundreds as is the case in a Chettiar's portfolio. The bills of the Marwaris are mostly drawn in English, but some bills for the Bombay trade are in Marwari. In Rangoon the Marwaris discount chiefly with the National City Bank of New York and the Central Bank of India.

429. There are also either two or three Marwari bankers in Moulmein, two in Prome and about five in Akyab. About 75 per cent of the indigenous financing of wholesale trade and 40 per cent of that of retail trade in Akyab is said to be done by Marwaris, the remainder in each case being shared equally by Chettiars and Bengalis. In Moulmein the principal Marwari business is the financing of the export of timber and rice.

430. The Multanis.—The Multanis are believed to be limited in Burma to five in Rangoon, but their business* is fairly large. The Multanis belong to Shikarpur in Sind, and have no relation to Multan, which is in the Punjab, although they have acquired the name of Multani.* Formerly the Multanis did most of their business in connection with the trade between India and the countries to the north-west ; they then had offices in Baluchistan, Afghanistan, Bokhara, Samarcand and other places in that region. But the development of railways shifted the trading centres and made the Multanis move their principal business offices. Their head offices are still in Shikarpur

* There is controversy in India as to how this came about, but it does not interest Burma.

although their business with other classes is chiefly in Bombay.* Even up to 1914 however there were Multani offices in Kandahar, Kabul, Bokhara and Bunderabas ; but in the next few years they withdrew entirely from this foreign business. It is said that there are only about a hundred Multani banking firms in all India, and that their total owned capital is about 5 million rupees ; but we have no authoritative information about this. In Burma they are confined to Rangoon. They buy gold and silver, but not for speculation ; they buy in one place when they can sell in another at a profit, in general they eschew trading and confine themselves to banking. They only take deposits rarely, and do not take them at all from persons who are not well known to them. Formerly they did much remittance work in India ; but they have lost this through the development of cheap remittances by telegraphic transfers and supply bills through treasuries and the Imperial Bank. They now get their profit partly by short-term advances on hundis, but chiefly by discounting bills which they then rediscount with the banks (chiefly at Bombay) or sell at Shikarpur. It is said that they have at any one time about 50 million rupees of current bills and that four-fifths of these are rediscounted at the banks. Hundis not so rediscounted are held or sold at Shikarpur which is the sole exchange for Multani hundis ; at Shikarpur hundis in all languages and payable at all places are regularly bought and sold. Multanis have particularly high standards of integrity and reliability and have built up a reputation which gives them particularly good credit at banks. They give particular attention to business of an arbitrage character and transfer hundis freely from one place to another to get advantage in discount rates. As a particular example hundis discounted by Multanis in Rangoon are generally sent to Bombay for rediscount because the rate at the banks in Bombay is generally two per cent below the rate in Rangoon.

431. The Gujeratis.—The Gujerati bankers are sometimes called Banias ; but, as in India that is a vague term covering a variety of people, we are not using it. There are only a few Gujeratis in the large centres, and they conduct their business on much the same lines as the Marwaris. For most of them banking is only a small secondary part of their total business ; they are principally rice-merchants or diamond-merchants or jewellers, though a few make moneylending their principal business. Like the Multanis they generally send their bills to India for rediscount ; they choose Calcutta or Bombay according to the relative rates of discount in those two centres at the time.

432. Conclusion.—Some mention of non-Chettiar bankers in Burma has been made also in Chapters VIII and XIa ; for further information about them the reader is referred to the reports of the banking committees of other provinces.

* The Multanis are said to be spreading now in the Madras Presidency too.

CHAPTER XIII.B.—THE CHETTIARS IN BURMA.

433. **Introductory.**—In Burma the term *Chettiar* is invariably used without any qualification to mean a Nattukkottai Chettiar; we shall follow that custom in this report. Moneylending Chettiars of other kinds are known in Madras and some are found in Burma; but they are of such negligible importance as financiers there that few people in Burma are aware that other Chettiars besides the Nattukkottai Chettiars exist.*. Formerly the term *Chetty* (plural *Chetties*) was generally used in Burma; but during the last ten years the term *Chettiar* † (plural *Chettiars*) has come into general use when English is spoken and is the description used by the Chettiars themselves when speaking English. At the end of this chapter will be found some extracts relating to the Nattukkottai Chettiars from a book by Dr. L. C. Jain entitled *Indigenous Banking in India* and published in the latter part of 1929. Dr. Jain's book described the Chettiars as they are in India; we shall deal with them as they are in Burma.

434. In December 1927, when Sir Harcourt Butler was Governor of Burma, he said in a public speech that Burma owed a great deal to the Chettiars. Addressing them he said:—

You represent a very important factor indeed in the life of this province.....Without the assistance of the Chettiar banking system Burma would never have achieved the wonderful advance of the last 25 to 30 years.....The Burman today is a much wealthier man than he was 25 years ago; and for this state of affairs the Chettiar deserves his share of thanks.

There are other opinions to be met, and we quote here from the evidence given to us by a Karen witness; but it is only fair to mention that this witness has a complete distrust of the complexity which he finds brought into life by "civilisation." He wrote to us as follows ‡:—

Tersely and pointedly speaking, Chettiar banks are fiery dragons that parch every land that has the misfortune of coming under their wicked creeping. They are a hard-hearted lot that will wring out every drop of blood from the victims without compunction for the sake of their own interest. One proof of this: 30 or 40 years ago, out of 10 villagers in the country 9 had lands; now it is just the reverse, and the one that has got anything, has the same tied up in the hand of the Chettiar tightly. . . . Again, suffice it to say that the swindling, cheating, deception and oppression of the Chettiars in the country, particularly among the ignorant folks, are well known and these are, to a large extent, responsible for the present impoverishment in the land.

* It is estimated that in Burma there are 150 to 200 Tamils who are professional financiers and are not Nattukkottai Chettiars; this number includes non-Chettiars as well as other kinds of Chettiars.

† *Chettiar* is not a plural form as Dr. Jain has stated; *ar* is a Tamil suffix implying respectability. In English *Chettiar* is often spelled with *y* instead of *i*; the Nattukkottai Chettiars' Association uses *y*.

‡ See Volume III of this report, Chapter XIV.

In all countries and in all ages antagonistic views of the character of the moneylending classes have been expressed. In Burma as elsewhere all lenders of money are bound to seem harsh to some borrowers. The Chettiars have been well remunerated for the service they have rendered Burma ; but that does not alter the fact that the service has been rendered. Moreover they have not only rendered a service in the past, playing in the development of Burma a necessary part which no other class has offered to play ; without their support, or the substitution of some other banking system towards which no steps have yet been taken, the internal and external trade of the country would break down and the rice crop could not even be produced.

435. General Description.—The Chettiars are an endogamous sect of the Vaisya caste and have their home in, and are the indigenous population of, Chettinad ; this geographical term denotes a barren waterless region including 58 villages of the Ramnad District of Madras Presidency and 20 villages of the Pudukottai State. Some Chettiars are reported to have said that the caste consisted originally of maritime traders and that money-lending has been their profession for only a few centuries. The population of Chettinad in 1921 consisted of about 40,000 Chettiars besides the other people who had settled there in the service of the Chettiars. But while coming from such a narrow area the Chettiars have wide business connections. They do business not only in the Madras Presidency and Burma but also in Ceylon, the Federated Malay States, the Straits Settlements and Cochin China ; there are a few Chettiars also doing business in Calcutta, Siam, Java, Sumatra and Mauritius. They also made an attempt to establish themselves in South Africa, but that has been given up. Formerly the Chettiars did considerable business in Bengal. Twenty years ago there were sixty Chettiar firms in Calcutta ; their principal business was the collection of deposits for use in their business in Burma and elsewhere, but they engaged also in the export of rice. In recent years both these lines of business have ceased to yield sufficient profit, and the Chettiar colony has dwindled accordingly so that it is now of little importance. In the other parts of India also, except Madras, the Chettiars have little or no business ; even in the Madras Presidency their loans are small and amount only to about one-sixtieth or less of the amount in Burma. Their business in Madras Presidency is chiefly in the Tamil districts ; they do little in the Telugu districts on the west coast. In the Tamil districts too they are not generally found except at places which are of some size and have a railway station. In Ceylon a number of firms own tea, coconut and areca-nut plantations which came into their hands when borrowers defaulted. In the Straits Settlements and Federated Malay States they have been interested chiefly in the rubber industry, and some years ago they acquired a number of rubber plantations owing to borrowers' defaults caused by the fall in the price of

rubber ; when rubber prices revived some were unwilling to dispose of the estates and now, with renewed depression, find them a burden. The number of Chettiar offices in the Federated Malay States and the Straits Settlements is estimated at 700, in Ceylon 450 and in Cochin-China about 105. The business in Burma is more important than that in any of the other countries mentioned in this paragraph ; indeed it is more important than that in all other countries together.

436. Some of the Chettiar firms in Burma are large concerns carrying on banking in several places in Burma as well as in one or more of the various countries mentioned above. In some cases, although a firm does not do business in many places in Burma or outside, it includes partners who also have shares in a number of firms conducting business in various places. But there are at the other end of the scale many firms carrying on a business which is little, if anything, more than mere moneylending at a rural town in Burma ; even then the lending is generally on a scale which is approached by hardly any other lenders.

437. Most of the proprietors of the Chettiar businesses in Burma have their homes in Chettinad, the active ones among them visiting Burma annually or more frequently to inspect the working of their agencies in Burma. Some have a second house in Madras City where their firms receive deposits and carry on business with the Madras banks. Some carry on business in various places in the Madras Presidency, and there are 95 firms working in Burma whose Madras business so much exceeds their Burma business that the income-tax officers assess them in Madras, treating the Burma business as a branch of the Madras business. As a rule the proprietors in Madras set up all their business outside the Madras Presidency. They do not confine themselves to Burma, but have business owned by identical partnerships (or shared with different partners) in Ceylon, the Federated Malay States, Cochin-China and other countries mentioned in paragraph 435 ; in this way they have advantages in averaging their risks, in employing their money where it is most profitable for the time being, and in remittance business. Enquiry was made in our special Chettiar census (described below)* to discover the extent to which Burma businesses are associated with businesses in other countries. For 1105 firms reporting, the numbers of businesses abroad were given as 62 in Madras, 141 in the Federated Malay States, 27 in Cochin-China and 65 in Ceylon ; total 295. Most of these businesses belong to firms identical with those working in Burma, but some of these firms are possibly counted more than once even for one foreign country. On the other hand there are many cases of proprietors of Burma businesses who have shares in other firms working in other countries ; commonly the Burma agents are ignorant of such connections of their proprietors, so that it is difficult to obtain reliable statistical information about this matter.

* Paragraph 455.

438. **Character and Customs of the Chettiars.**—The Chettiars are very proud of their loyalty and law-abiding character. They are very conservative ; they owe a great deal of their strength to their close social organisation and are naturally careful about adopting any changes which might affect that. Changes are however taking place. A residential school was founded in 1929 at Kanbè near Rangoon to give general and technical education to Chettiar boys, a board of trustees being appointed to manage it under the description of the Nattukkottai Chettiars Educational Trust ; at present general education on academic lines is given, but arrangements are about to be made for training in banking. Significant of a new attitude too is the endowment by the Chettiars in Burma of a lectureship in banking and commerce in Rangoon University ; a sum approximating to one and a half lakhs was given for this purpose, and arrangements by the university to comply with the terms of the gift will shortly be brought into effect. Chettiar women are no longer forbidden to cross the seas ; but it is still customary for them to stay in Chettinad. Although traditionally Chettiars keep their assets liquid or in the form of well-secured loans, there is one way in which they have always locked up a considerable amount of money. Social custom sets a high standard for the kind of house which must be kept up in each economic grade, and enormous sums are spent in building large houses in Chettinad. To some extent the custom of building large houses is due to the custom that so long as a father is alive all his sons and their families live under the same roof with him ; another influence was probably the need of a strong building to protect money and valuable documents. In other respects the Chettiars are noted for their frugality. An interesting characteristic is the way in which, in contrast with some other Indian castes, they arrange their family affairs in an undivided Hindu family. They insist that every male shall earn his living. Even the various married sons of one father living under one roof and sharing in one business do not eat in common as would usually be done amongst other Hindus ; each married son is given a definite annual income or allotment of rice and other necessities, and his family is required to cook its meals for itself. Dr. Jain has suggested that these practices have contributed to the development of self-reliance amongst the Chettiars. In comparison with the customs of some castes investment in jewellery is not generally large in proportion to means ; wealthy partners of firms do not generally invest more than 2 or 3 per cent of their wealth in jewellery, while those of smaller means do not invest more than ten per cent in this way. They do not regard jewellery as a useful means of holding liquid assets. However rich, they only own as much as is considered reasonable for personal adornment of their families ; once this is provided, they do not buy more to correspond with increased wealth.

439. Chettiars are also noted for their gifts to education and religion; they share with other Vaisyas the practice of setting aside as *magamai*, or gifts for such purposes, a definite percentage of their commercial profits. In Burma there are two principal forms of *magamai*, one consisting of gifts to the temples and one set aside for private charity. A Chettiar temple is always established wherever a few Chettiars are doing business, and *magamai* contributions for the upkeep of the temple and the pay of temple servants are then made every year. Every firm contributes at rates which are assessed upon business done and are fixed by mutual agreement of the contributors each year according to the temple's needs. In Burma there is generally one rate fixed for loans and another for property taken over for debt; e.g., the rate may be 14 annas per Rs. 1,000 loans and 9 annas per Rs. 1,000 for property taken over for debt, the value of the property being reckoned always as the principal money outstanding of the debt. In most places one rupee per Rs. 1,000 is regarded as the maximum rate which may be proposed. All give their subscriptions honestly according to the rate of assessment; a failure to contribute would mean boycott by the others. The second form of *magamai* is derived by a sort of cess upon certain kinds of business done. At the end of each year each Chettiar business strikes a balance of the sums remitted by it to each other shop and the sums received from each shop; upon the net balance received by the one or the other of every pair a *magamai* assessment of a quarter of an anna per Rs. 100 is calculated and paid by the receiver to the other, who uses it as a private charity fund. In addition to the temple money special collections are made from time to time either in one locality or from all the Chettiars in Burma; an instance of the former kind is the gift promised in May 1930 by the Rangoon Chettiars to the fund for relieving sufferers in the Pegu earthquake, while instances of the latter kind are the collections for the gift to Rangoon University and for endowing the Kanbè school. Besides contributing to collections Chettiar firms also give freely for charitable purposes individually.

440. In Rangoon the temple is managed by the representatives for the time being of four particular firms which are regarded as the oldest established in Rangoon. The temple is in a building of two storeys on the eastern side of Mogul Street, half-way between Dalhousie Street and Merchant Street. The ground-floor is divided into six narrow rooms used for business purposes, and the upper floor has a shrine of Siva before which is a space where the meetings of the community are held to settle the current rate of interest and other matters of general importance. The temple and the rooms below it, familiarly known as "the six rooms," are the real Chettiar Exchange; that is to say the place where gossip is exchanged every morning before the main business of the day begins, and a general body of opinion as to the financial situation and appropriate measures is developed.

441. The qualities of the Chettians as financiers which most impress one in Burma are (a) their organisation as a financial system, (b) their sodality, (c) their mutual confidence, (d) the confidence they command in the minds of most of the ordinary people of the country as to the honesty of their dealings, (e) the simplicity and rapidity of their procedure for granting loans, (f) the magnitude of the total business done by them, (g) their spread over all Lower Burma so that (in spite of their foreign origin) the availability of Chettian loans is accepted as though it were as natural as rain in the monsoon; and (h) their dominating position as rural financiers in Lower Burma.

442. **Sodality.**—In most places where more than two or three Chettian firms are carrying on business there is a loose business union arising out of the system of *magamai* contributions described in paragraph 439. Existence as a small alien group with frequent blood-relationship and with common economic interests, descent, language, worship, and all caste associations, but divided in all these points from the population around them, was sure to generate a feeling of sodality, especially as there was necessarily mutual dependence in some matters, such as the occasional need of liquid resources. It has come about partly in this way, and partly as a matter of economy in the provision of a strong building to protect their money and documents, that in each Chettian centre the firms are collected in groups of two or three to eight or more firms, each group occupying a brick house which is often the only brick house in the place. Chettians rarely occupy wooden houses even in the villages. In a town, if there are two or more Chettian houses, they are naturally close together because all are close to the business centre of the place.

443. This concentration is seen, for instance, in Rangoon where all the firms do business within a short piece of Mogul Street. The six rooms, which, as was stated above, occupy the ground floor of the temple building, are formed by parallel partitions which divide that floor into six apartments about 40 feet deep and with equal frontages of about 12 feet. In a double row in each room are about 10 places at which the Chettians sit on a mat on the floor to do business with their clients as they come. The places are not separated from each other in any way; they are merely locations down each long side of the room. At each place there is a small desk, holding pens and ink, large enough to use as a rest for filling in a promissory-note, and low enough to be used by a writer sitting on the floor; in addition there are at each space either two boxes about 18" × 10" × 9" or one such box and a desk about the same size. Each place is occupied by one firm represented by its cashier who stays nearly all the time and its agent who keeps near by and comes to his place if a client comes. At the back is another room, transverse to the others, with a few more firms. Each firm has against the wall behind its place one or more safes and one or more almirahs.

The clerks of the firms come and go, but are not located in these rooms for their work ; they do that in their living-quarters. A few other buildings in Mogul Street, within a hundred yards from the temple up or down the street, have ground floors divided into similar rooms, making altogether (including the six rooms) 23 such rooms. About 14 or 15 of the very largest firms have separate flats including either one or two business rooms, usually on the first floor of a building, and all situated in the same short piece of Mogul Street ; most of these 14 or 15 firms have a desk also in one or other of the 23 rooms. In the 23 rooms and the flats and the temple itself all the Chettiar business is conducted. All the managers and their staff live close by, mostly in the rooms above the business-rooms ; some sleep in the 23 rooms themselves to act as guardians. All meet one another frequently, not only in business and in attendance at the temple and at communal meetings, but also on the casual occasions of everyday life, such as the morning toilet, and in the casual attendances at the six-rooms in the mornings to hear the gossip.

444. Under such conditions a certain sense of sodality is sure to arise, and it is manifested in a willingness to assist one another to some extent in time of need. The various firms grant one another various conveniences of a minor sort in everyday business. In case one firm gets into financial difficulty the others are generally willing to support it if such support seems a reasonable proposition. It is said by some non-Chettiars that this sense of mutual support has weakened in recent years ; but, since the special circumstances in the last few years, when the low real prices of paddy have caused so much difficulty to agriculturists, may have made proposals to carry lame firms along less satisfactory than they might be in more prosperous times, it is difficult to say whether this weakening has really occurred. The matter is moreover complicated by blood-relationships and the interlocking of partnerships described below in paragraph 459. The experience of the crisis of 1929 suggests that the Chettiars are not willing to support solvent firms in temporary difficulty when such support involves risk of loss. Our Chettiar member says that there has been no change in this matter in the last thirty years, and that the refusal to support failing firms in 1929 was due to unfavourable estimates by the general body of Chettiars of the financial condition of those firms. But it is only the ordinary course of things that such mutual support should diminish as the number of firms grows, and the general impression we have received is that there has in fact been some weakening.

445. **The Nattukkottai Chettiars' Association.**—The Chettiars have in Rangoon an Association called the Nattukkottai Chettiars' Association which was inaugurated on the 23rd August 1923 and

watches over the interests of the community as financiers. The members are not individuals but businesses represented by their managers, and nearly every important business in Burma is a member; out of 1,650 Nattukkottai Chettiar businesses in Burma 1,498 are members. But the remarkable sodality of the Chettiars is not due to the Association; it existed long before and was the cause rather than the effect of the Association, though no doubt the Association helps it to continue. Besides watching the interests of its members the Association acts as the general organiser of the community, e.g., in collecting the moneys for communal gifts to education or charity. Each member pays the Association an annual subscription of twelve rupees. The Association is a member of the Federation of Indian Chambers of Commerce and Industry.*

446. Kinds of Chettiar Banking Business in Burma.—The main business of the Chettiars in Burma as a community is lending money. They try to avoid speculative loans, but are ready to lend their money for any enterprise which offers adequate security and profit. Agriculture offers these and is the principal occupation of the country, and most of the Chettiar loans in the country as a whole are made to it. In addition Chettiars outside Rangoon finance wholesale and retail shopkeepers and industrialists of all kinds and to some extent artisans. In Upper Burma their loans to agriculture are only about one-fourth of their total loans, but in Lower Burma (where the total amount of Chettiar loans is eighteen times as large) the fraction would be two-thirds. Some of the Rangoon Chettiars play the part of the ordinary district Chettiar for the Insein and Hanthawaddy districts. Some of the wealthier agriculturists also from more distant places in the Pegu Maubin and Pyapôn districts come to Rangoon Chettiars for loans because they thus get comparatively large loans more cheaply than from local Chettiars; but the total amount of this business is comparatively small. Only about 150 out of roughly 350 Chettiar firms in Rangoon lend directly to agriculturists, and 60 to 120 of these are the *Therkuvallagai* Chettiars† who come from the south of Chettinad and do no business besides lending for agriculture. Some others working on a comparatively small scale confine themselves to trade. Others again with larger resources finance the Chettiars out in the districts besides doing all other sorts of Chettiar banking business.

447. Probably the issue and discount of hundis for remittance are the most important businesses of the Chettiars after lending; in addition they accept deposits, honour cheques, discount usance hundis, change

* We venture to recommend special attention to the evidence of the Nattukkottai Chettiars' Association by all who study the evidence on any matter in Volume III of this report.

† See foot-note on page 206.

money, accept documents and valuables for safe deposit, and (outside Rangoon) deal in gold. In Rangoon some Chettiars are ready to undertake all these activities except the last, which in Rangoon is the business of special dealers, but some do not have deposits on which cheques may be drawn, and the changing of money and safe-deposit business are done by few. Most of the small firms in Rangoon also do no hundi business, though such business is done by all the large firms. Some Rangoon firms, as already explained, are really district Chettiars located in Rangoon. It must be remembered that as stated above, there is a wide difference between the scope of the activities of the largest and the smallest firms. District Chettiars often have no opportunity of other kinds of business besides lending and remittance ; some even are confined to lending in practice, although willing to do other business if it comes to them. In the larger towns outside Rangoon some Chettiars get deposits, generally nominally repayable on demand ; but there are only a few of the largest towns in which cheques are used to draw upon these deposits, and even there this business is confined to a few firms. Indeed deposits rarely supply more than a negligible part of the working capital of any business outside Rangoon, Moulmein, Bassein and Mandalay.

448. Other Occupations.—As a class Chettiars in Burma have not much business outside banking and moneylending. In this they seem to differ from the shroffs of most parts of India, who (we understand) are generally engaged, either on their own accounts or as commission agents, in the purchase and sale of various commodities such as cotton and rice. The Chettiars on the other hand have a distinct bias towards being pure financiers, and they have developed purely financial business in a high degree. But here and there some are found carrying on other business. All Chettiars must of course sell gold in the form of unredeemed pledges ; but some district Chettiars carry on a regular trade in the gold required by local people for religious gifts and for jewellery. Rangoon Chettiars do not trade in gold. Until a few years ago some Chettiars in Akyab used to take part in the rice-export trade ; but they have now given this up. Chettiars may be found who besides lending money are substantial landowners or own houses shops and factories of various kinds, such as saw-mills and paddy-mills. Chettiar ownership of agricultural land will be discussed separately in the succeeding paragraphs. The ownership of house and shop sites in towns and of factories has come about through defaults of borrowers. Sometimes the Chettiar has been forced not only to take over but also to work a factory to avoid loss. A few have taken up paddy-milling or sawing as their principal occupations, either from taste or because they found so much of their capital locked up in defaulting loans secured on the mills. But most of them, being essentially financiers and neither accustomed

to nor skilled in industry, take the first opportunity of getting rid of mills and re-investing the money in the more congenial business of banking, which many of them think is also more profitable.

449. **Chettians as Owners of Agricultural Land.**—A few Chettians have become principally land-owners, working their land by tenants, or even in exceptional instances working it by hired labour under their own direct supervision. Some of these have taken Burmese wives and shown an intention of settling permanently in Burma; but these are mostly clerks and others of inferior grade. There are also a few cases of Chettians who hold a little land largely as a sort of money-making hobby, being interested in the work of supervising its working; perhaps, consciously or unconsciously, they are keeping themselves directly informed by personal experience of the circumstances under which their principal clients earn the money needed to make payments on their loans.

450. A Burmese newspaper (*Thuriya*, 19th February 1930) has stated that in recent years Chettians have aimed at obtaining possession of agricultural land, and for this purpose have seized it more readily when loans were in arrears, holding it and working it through tenants. The newspaper made a special point of the Maubin district, where it said the Chettians had taken over 30,000 acres of paddy land in each of the last three years. (As the total area of paddy land in the district is something over 520,000 acres this would represent 6 per cent of all the paddy land of the district taken over each year.) The newspaper called upon Government to take steps to prevent land passing into the hands of foreigners in this way, and called upon the land-owners to raise an outcry. The Nattukkottai Chettians' Association took up the matter and wrote a reply which the newspaper published (7th March 1930). The Chettians denied the charge, saying they were doing their best to help cultivators and had no desire to own paddy-land. They recalled instances in which the Chettians had led in applying to Government for measures to protect against floods and to help the cultivators in other ways. They also stated that in 1890, when there was a temporary depression, much land had passed into Chettian hands through defaults of borrowers, but in a year or two, when agriculture was more flourishing, all was sold off without regard to the assured increase of value in the next few years. They said further that the prospect of the separation of Burma from India was not leading them, as the newspaper had alleged on another occasion, to try to get possession of land in Burma; on the contrary they regarded it as an added reason for avoiding the possession of land and keeping their capital as liquid as possible. Finally the Chettians declared that they already had business in various countries, that men with capital could make a living anywhere, and that if newspapers in Burma tried to spoil the

good terms now existing between the agriculturists and the Chettiars they would close down their Burma business and invest their capital elsewhere. The newspaper stated however below the Association's reply that it held to its previous opinion.*

451. The four Burmese members of the committee and Professor Jevons believe the newspaper is correct in asserting that there has been in recent years a tendency for Chettiars in general to wish to become land-owners and for this purpose to seize land more readily when loans are in arrears and to continue holding it and working it through tenants ; these members attribute the change to the increase of rents and the disappearance of difficulty in finding tenants.

Minority View.—The Chairman and Mr. Dawson are not prepared to support this view ; they think the conditions of recent years when cultivators' profits have been small may have caused a temporary increase in the amount of land taken over, but that this does not indicate a general change of policy. Cultivation does not extend, as Professor Jevons thinks, when low prices require a larger area to yield the customary income, but when prices are high. In Maubin district in particular the land is broken up by deltaic creeks into saucer-shaped areas in which all except the rims are more or less liable to flood and the centres are often frankly unculturable ; the effect of high prices is to encourage the cultivation of land to extend down into the depressions where the outturn is not sufficient to pay the cost of cultivation if prices are low. By continued working, aided by bunding and other arrangements to modify the drainage, low land can be improved to some extent ; and there is a continual tendency for its improvement by the deposit of silt washed down to it from the rim of the saucer even when bunding has prevented the entry of much silt with the river-water. But if a period of low prices comes early, cultivators who have borrowed to finance the improvement of such land are only too glad to surrender it to settle their loans. There has also been difficulty in Maubin district in dealing with the rival claims of fishermen and agriculturists ; the latter have the preference as a rule, but sometimes the fishermen have their way and, by preventing the escape of water, reduce the value of agricultural land. Thus in one way or another many cases of Chettiar acquisition of land have arisen at the will of the borrowers. It is inevitable too that some heavily indebted or unskilful cultivators, who make ends meet with difficulty in ordinary times, will lose their land in a period of depression. Sometimes in the past when land has come into a Chettiar's hands he has not sold it off at an early opportunity, but has continued to hold it as a speculation, seeing no harm in using a moderate part of his capital in this way. He may even buy additional land to round off his holding or to join profitably to high or low land already held either permanently or temporarily, a judicious combination of lands at different levels being sometimes more profitable than an equal area all at one level. But in the past, subject to exceptions described above and to occasional retentions in the hope of still further rise in price, even compact holdings have generally

* A further letter from the Association stated that enquiry had shown that in fact less than one thousand acres of land had been taken over by Chettiars in the last year in Maubin district. This letter came to my notice only after the committee had passed its report—*Chairman*.

been sold. Small holdings widely scattered have commonly been sold as soon as prices could be obtained which approximated to the debts on account of the corresponding loans and have been sold for less when there was no prospect of obtaining such a price soon. But the Chettiar's predilection is to be a financier, and he would rather have for his assets loans which he can transfer to another Chettiar when he wants to go back to Madras than land which cannot be transferred in the same wholesale way. Moreover, twenty years have gone since the difficulty of finding tenants disappeared and the rise of rents through competition of tenants began ; these considerations therefore could hardly explain a change of policy in the last three or four years. According to this view of two members the present increase of land in Chettiar hands is a reflection of the depression in the business of paddy cultivation, and will disappear when that depression disappears, and is not an indication that the Chettiar's heart has changed and made him greedy to get possession of land.

452. Clientele.—The Rangoon Chettiars, other than those who play the part of ordinary district Chettiars for the Hanthawaddy and Insein districts deal chiefly with Burmese Indian and Chinese traders. In Lower Burma outside Rangoon the Chettiars deal chiefly with Burman landlords and agriculturists who together form the greater part of the population ; in Upper Burma they deal chiefly with traders although the population there too is chiefly agricultural. But they are equally ready to lend to all sorts of people provided adequate security is offered and an attractive profit is likely to be obtained. The Chettiars are generally at a disadvantage in comparison with a Burman lending to persons of his own race living in his own village ; they cannot have quite the same intimate knowledge of the borrowers. By lending at lower rates they are able to select borrowers so as not to incur excessive risk even though they lend over a fairly wide area so as to employ a considerable capital. Thus most clients of Chettiars are landowners or tenants of good standing or shopkeepers. Borrowers who cannot give security to the satisfaction of a Chettiar must find a local lender who can accept the additional risk because he is in closer contact, and they must generally pay a higher rate of interest accordingly ; labourers of all kinds commonly fall into this class and rarely borrow from Chettiars. But there are some labourers who have property and are able to borrow as easily as tenants.

453. Spread of the Chettiars in Burma.—We have made no effort to trace back the history of the Chettiars in Burma previous to the annexation to the British Empire of Pegu and Irrawaddy divisions in 1852. Possibly they played a part in earlier Burmese history ; but the seed from which their present florescence developed was sown chiefly from about 1870 onwards. So far as we have been able to learn, the first Chettiar business in Burma was opened in Moulmein, probably before 1850, although some think the beginning was in Rangoon and give

1852 as the date *. By 1889 Chettiars had spread into every one of the present districts of Lower Burma except Mergui, Salween, Sandoway, the Hill District of Arakan, and Kyaukpyn, of which all except the last-named are still unserved by Chettiars. No doubt the increase in the market-price of rice, which resulted from the development from 1872 onwards of the export trade by steamers passing through the Suez Canal (opened 1869) and led to a continuous and rapid rise in land values, was the prime inducement to cultivate the Burma field of finance ; and the settled conditions brought about by British administration promoted successful growth. The annexation of Upper Burma in 1886 was soon followed by the spread of Chettiars to that part of the country.† They opened business at Mandalay in 1890, at Myingyan in 1891, at Meiktila in 1892 and at Shwebo in 1894. By 1901 Chettiar businesses had been opened in all districts of Upper Burma except the Myitkyina, Upper Chindwin and Chin Hills districts and Pakôkku Hill Tracts, all four of which are still entirely without Chettiars.

454. **Present Distribution of Chettiars.**—The eight districts which have no Chettiar offices are mentioned in the preceding paragraph. Tavoy, Katha and Bhamo districts have only one office each, while Lower Chindwin district has only two or three, Kyaukse and Shwebo about six each. The largest numbers are in Pegu, Tharrawaddy, Bassein, Myaungmya, and Pyapôn which have about 110 to 140 each. Hanthawaddy and Insein districts have only about 70 and 60 respectively ; but many firms in Rangoon serve these districts.

455. An endeavour was made to take a census of the Nattukkottai Chettiars, and for this the aid of their Association in Rangoon was enlisted. The Association printed and sent out, to all centres where Nattukkottai Chettiars do business, cards on which the required statistics were asked for. Instructions sent with the cards explained all the enquiries and asked that the cards should be distributed to all the Chettiar establishments, and that every establishment should put a card bearing its own statistics in a locked box which was kept for the purpose in the local temple and arranged like a post-box with a narrow slit by which to put the cards in. The Association gave a pledge of secrecy with its instructions. Names were not to be written on the cards ; the total number collected in the box was to be the sole check upon the completeness of the work at each centre, while every establishment was to be trusted to make a correct record. Non-members of the Association were asked to join in the arrangement. The completed cards of every centre were posted or otherwise conveyed to the Association in Rangoon. A list of centres was furnished by the Association to the Chairman of the

* Moulmein came under British Administration in 1826, Rangoon in 1852.

† A curious fact is that local reports from the Minbu and Pakôkku districts say that Chettiars began business in those districts, in 1859 and 1877 respectively. We have been unable to make further enquiry into this ; it seems unlikely to be true.

Banking Enquiry Committee, who noted the district in which each town was situated ; thus the Association was able to assign each centre to its proper district and to compile the totals for districts. A large party of the committee of the Association was unwilling to communicate the district totals desired by us, and before the compilation had been begun this was the subject of long negotiation between our Chairman and the Association. Eventually a compromise between district totals and the provincial total was arranged, and totals by divisions and for Rangoon Town were given. The results are shown in detail in a state-

Abstract of Result of Special Chettiar Census.

Item. <small>A B—Figures for items 3 to 7 represent lakhs of rupees</small>	Chettiar Census figures.		Total.
	Rangoon.	Other areas.	
(1)	(2)	(3)	(4)
1. Number of businesses ...	337	768	1,105
2. Number of outstations ...	117	72	189
3. Deposits by non-Chettiars on the date of enquiry ...	16	6	22
(a) Payable on demand ...	9	3	12
(b) Other ...	7	4	10
<i>Loans to Non-Chettiars.</i>	—	—	—
4. Total on 15th December 1928.	103	207	310
5. Total on 15th May 1929 ...	108	209	317
6. Loans secured by mortgages of agricultural land on date of enquiry ...	39	102	141

ment in the second volume of this report ; an abstract of the statement is given in the margin hereby, all figures from line 3 downwards represent millions of rupees. The figures in columns 2 and 3 are those obtained by the census. Column 2 is probably nearly

complete and reliable for Rangoon. Column 3 covers only Pegu division (excluding Rangoon), Irrawaddy and Mandalay divisions, the Amherst, Thātōn and Tomgōo districts and Akyab town. Thus the Magwe and Sagaing divisions and the Shan States are entirely omitted, and even in the included areas many firms have been omitted. Later the Association supplied an estimate of the omissions, showing for these about five hundred firms and ninety million rupees of loans.

456. We have made enquiries from other sources too, one of these being an enquiry from every Deputy Commissioner for the number of businesses in each township. But it has been difficult to reconcile some reports and to state a precise number because there is some confusion of nomenclature, some estimators having reckoned sub-agencies (*utkade* as described below)* as agencies and some having ignored any business managed by a partner. Some also have possibly reckoned other Tamils as Chettiars. The Income-tax Department gave us a statement

* Foot-note page 205.

of the total number of Chettiar's and other Tamils ; some information is also to be had from the registers kept under the Registration of Business Names Act. The Nattukkottai Chéttiar's Association has estimated 1,600 as the probable total for all Burma, its total membership being as noted above 1,498. After comparing all the estimates we have arrived at a figure of 1,650 as approximately correct for all Burma including the Shan States. Of this number roughly 360 or rather above one-fifth are in Rangoon, while about 1,443 or seven-eighths of the total are in Lower Burma, including Rangoon, and 195 are in Upper Burma (excluding the Shan States). For Lower Burma outside Rangoon the total is about 1,100 or two-thirds of the whole. The Federated Shan States have 12 offices altogether.

457. The number of towns and villages at which Chettiar businesses

Region.	Total offices.	Average per office.			
		Square Miles.	Population thousands.	Village-tracts.	
Upper Burma ...	193	215	23	26	are carried on in Burma (including Rangoon) is about 217 ; of these 155 are in Lower Burma, * 55 in Upper Burma and 7 in the Shan States. To the total for Lower
Lower Burma { A	1442	37	5	5	
{ B	1083	50	6	7	
Burma ... { A	1635	58	6	7	
{ B	1276	75	9	10	
Pegu division ...	446	31	6	5	
Irrawaddy division	494	27	5	5	

Burma Pegu division contributes 62 and Irrawaddy division 60. If the Shan States and the districts mentioned above in which not more than one firm is working are excluded the averages given in the marginal table are roughly correct, reckoning the population as 10 per cent greater than in 1921, and using A and B in the second and third lines to show the figures when Rangoon is included or excluded. Throughout nearly every well-populated part of Lower Burma there is a Chettiar within a day's journey of every cultivator ; generally half a day suffices for the cultivator to go to a Chettiar, apply for and get a loan and return home. The time required may be a little more in some newer parts of the delta, especially as the journey must fit in with tides ; but in the parts of Lower Burma served by motor omnibus the time is very small. In Upper Burma Chettiar offices are much more sparsely distributed ; we shall see presently that only about five per cent of all the Chettiar business belongs to that part of the country.

* Throughout this paragraph Thayetmyo district, though legally in Lower Burma, is reckoned with Upper Burma because it has closer affinities with Upper Burma physically.

458. **Chettiar Firms.**—Except in the case of the Bank of Chettinad, which is a new development described in paragraph 461, each Chettiar business is owned by a partnership of closely related persons and managed by an agent. The partners are commonly related to each other through their wives, people who are related directly being more likely to set up separate firms because of certain rules of a Hindu joint family as to ownership of property. When a partner has grown-up sons willing and able to take part in managing a business, he usually breaks off and sets up a new partnership consisting of himself and his sons; when the father dies the sons generally separate before long to form independent firms. Agents who have done well are sometimes taken into partnership. Under these conditions there are fairly frequent dissolutions of partnerships and formations of new firms. It is estimated that the number of firms working in Burma has increased in the last twenty years from 350 to 1,650; this is not due to firms existing elsewhere in 1910 opening up business in Burma, but to the formation of new firms. Another result is that by the relationships of partners a firm is often closely connected with other firms, which accordingly, in case it gets into difficulties, can have reliable knowledge of its affairs and are often more willing therefore to help it over its difficulty than other firms would be.

459. Each firm works under a name formed of the initial letters of the personal names of its proprietors; e.g., Palaniappa, Murugappa and Ramanathan in partnership would style their firm as P.M.R.M. (By custom the name Ramanathan is represented by the two letters R.M.). Such a firm may open an agency at several places in Burma and perhaps in other countries too, each business keeping direct relations with the proprietors in Chettinad; if one of the agencies is in Rangoon it will act as a financial agent for all the others in Burma but it will not control them. Sometimes one or more partners will enter into other partnerships which have different businesses with their own agencies in Burma and elsewhere. Thus P.M.R.M. and P.M.V. and M.S.C. may be three firms in all of which one person Murugappa is a partner, while Palaniappa is a partner in two of them. V and C may perhaps be partners in other combinations. Thus there is often a close interlocking of partnerships, which again gives rise to mutual support between firms apart from the general Chettiar sodality. Each partner who joins more than one partnership obtains in this way some advantage in the distribution of his risks; there is also an advantage in getting his income from several sources treated independently by the income-tax officers and separately exempt from super-tax. Sometimes one of the partners in a firm comes to Burma to manage its business, acting in fact as its agent; more generally the partners only inspect the working of their various agencies and exercise general control. The name which often follows the initials of a firm in its description is the name of the agent

carrying on the firm's business at a particular place ; thus a combination of initials and name, such as P.M.V. Narayanan Chettiar, is the name of the particular agency in that place. In some cases the name of the firm is not changed when a deceased partner is replaced by a son or some other change is made; sometimes the initials of the most important founder of a firm are carried on even by separate parts into which a firm is divided.

460. The profits of each separate business carried on by a partnership are divided when the agent is changed, that is to say, once in three years. If the partnership has offices in several places there may thus be fairly frequent distributions. But the greater part of the income derived by the partners from the firm is received as six-monthly payments of interest on the larger part of the money they subscribe to the capital of the firm, as is explained in further detail in paragraphs 483 and 549. Any moneys which a partner draws from the firm apart from the regular interest payments and distributions of profit are reckoned as loans to him from the firm and charged interest accordingly ; this applies in every case, even if father and sons in an undivided joint family are the only partners.

461. In September 1929 a new form of association appeared by the registration in Madras as a private company of the Bank of Chettinad, which consists of members of one family who had previously constituted two partnerships working in Burma, Ceylon, the Straits Settlements, the Federated Malay States and Cochin-China. The bank has a paid-up capital of thirty million rupees. The head office is at Kanadakathan in the Ramnad district in Chettinad. All the agencies of the two partnerships concerned have been converted into branch offices of the bank ; but each branch continues to bear the same relationship to the bank as an agency bears to an ordinary partnership, and its manager is treated exactly like the agent of a partnership. Association as a company may, however, on account of the duties imposed by the Indian Companies Act upon private companies, lead in time to considerable modification of the way of carrying on business. Especially modifications are likely to arise in the matter of book-keeping to facilitate the preparation of the annual balance-sheet and of the half-yearly returns of which the act requires a copy to be made available to every creditor. At present the accounts are kept on the same lines as in other Chettiar businesses.

462. **Agencies and Out-stations.**—Generally every place at which a firm carries on business is a separate agency, including under that term a number of businesses (guessed to be around 250 in number) in which one of the partners manages the business. In some cases an out-station, called an *utkade*,* is opened in a village at a moderate

* *Utkade* means literally *out-shop* and is pronounced *ut-k' day* with the accent on the first syllable, which is pronounced as in the London pronunciation of *put*.

distance from an agent's office and managed in subordination to the agent by a sub-agent called an *utkade al*. The agent visits the out-station frequently—usually once a week. The clerk has power as a rule to lend up to Rs. 1,000 and draws funds for the purpose from his agent as required. The accounts are incorporated in those of the agent's business ; but the sub-agent keeps a copy of the accounts called the village-book. As documents and valuables are kept for safety in the agent's custody, a borrower must give some hours or more notice if he wants to claim back a promissory-note or mortgage-deed or jewels. It is rare to have more than one out-station for one business, but businesses with two and three out-stations are known. The general rule is to have no out-stations at all ; in our special census of Chettiar firms 1,105 businesses reporting showed only 187 out-stations altogether, and of these 117 belonged to 337 businesses in Rangoon and many were probably stations of the *therkuvattagai* Chettians about to be described. The pay of a sub-agent is generally Rs. 1,200 to Rs. 3,600 for the triennium of the agency ; besides this he gets a bonus according to profits and amounting to anything up to Rs. 3,000.

463. Out-stations of *Therkuvattagai* Chettians.—There is a special group of Chettians in Rangoon who have a system of their own for organising their business. They come from the southern part of Chettinad and are called *therkuvattagai** Chettians. These have their places in the twenty-three rooms and some of them accept deposits, but they all lend only for agriculture and not to traders, and even restrict their agricultural loans to the more substantial people. They are all small firms. Some, but not all, belong to the Association. There are said to be 120 firms altogether ; but there is a little uncertainty about this number ; one estimate was only 60. All their agencies are in Rangoon. Their principal distinguishing feature is that they send out a clerk to villages in the environs of Rangoon to deal with the local borrowers. The clerk lodges in the house of a villager in some convenient centre and goes round to the neighbouring villages in turn, calling upon the regular clients of the firm to enquire for their financial needs, and of course getting new clients as he can. Sometimes he moves his camp about from centre to centre during the season. He may have a little money to lend at once, but for any considerable sums he must await one of the visits of the agent from Rangoon who goes out every few days to supervise and to take the money that is needed. Some agents send out clerks to two or more localities. The rate of interest charged is generally less than that charged by the ordinary district Chettians ; but it is rather higher than would be got by lending in Rangoon, and the cost of the arrangement is not large enough to consume all this advantage.

* *Therku* = south ; *vattagai* = region.

464. **Establishment.**—Paragraphs 468 to 470 will be devoted to agents ; but the notes in this article apply to them also except where they disagree with the special paragraphs. An agent has generally an establishment of five or six persons (besides menial servants), all coming from Chettinad or its neighbourhood although only about three in four are Chettiars. All are under the agent's immediate control. They are in different grades according to capacity and experience. The principal three are the assistant, the cashier and the accountant. The assistant * is the chief of these and acts for the agent when he is away. At other times he is employed in going round to collect payments and information. In a large business there may be two or more accountants. The junior members of the establishment have to make themselves generally useful, helping the agent and the three principal employees, and often acting as messengers. They gradually acquire a knowledge of the business, and according to their inclinations and capacity rise to the better appointments. It is a characteristic of the establishment that in case of need everyone is willing to do any work required to be done for the firm. Great care is taken in selecting agents and other members of the establishment. Owing in part to this and to the family connections often existing between them and the principals, there are practically no cases of dishonesty. In case dishonesty does occur severe punishment is meted out by the caste, whether the culprit is convicted in a criminal court or not. He is completely severed from the caste and allowed no social intercourse even with his family unless they share his ostracism. All whose conduct contributes to any losses by dishonesty are called upon to make good the amount lost. The salaries and bonuses received will be indicated in the next article ; in addition to the salary every employee, including the agent, receives free board and lodging and has all his reasonable wants in other directions satisfied, so that he has no need to use any money of his own. He does not get a regular allowance for these occasional needs, but is given what is needed whenever clothes, cigarettes, or a cinema ticket are to be bought ; the general tradition of frugality is apparently enough in most cases to prevent difficulties arising out of this practice. One half of the salary for a triennium is usually paid after one month's work and the remainder after returning to Chettinad at the end. A portion of the half received at the beginning is placed on deposit, as a rule, with the employing or some other business. Bonuses to salaries are in every case contingent upon profit having been made by the business, and also (unless the firm wants to dispense with his services) upon the employee returning to duty with the same firm, without working for any other firm or doing

* The Tamil name is *aduthal* which means "next man," that is, next man to the agent.

any other banking business in the meantime. The bonus is paid as soon as the recipient reaches Chettinad for his leave ; but an on-demand promissory note is generally taken for it as though it were a loan for the remainder of the interval before duty begins again ; in some cases the employee is required instead to sign a formal agreement, or write a letter promising to pay back the money if he does not return to duty. Forfeitures are naturally rare. Generally employees of lower grade than agent take about one year's leave after each triennium of duty. None of the establishment, not even the agent, ever brings his wife with him to Burma, although the ban of the caste against their travelling over sea has been removed. The proprietors would refuse their employees permission to bring wives, says our Chettiar member, because the women are generally uneducated and therefore susceptible to temptation to extravagant expenditure on jewellery.

465. **Training.**—An ordinary Chettiar boy stays at school until the age of 12 or 15, learning the Tamil language and something about book-keeping, and in many cases nowadays beginning to learn English. On leaving school he goes to a firm as an apprentice, and begins his acquaintance with practical work. He does not usually seek any higher education ; neither does he as a rule study the theory of banking or attend any commercial or accountancy schools. But a change in this respect is being made by the school at Kanbè mentioned in paragraph 438.

466. As an apprentice the Chettiar usually works first for a period of three years with no salary ; he gets free board and lodging and the usual pocket-money as described above. After three years work he returns to Chettinad for a year's holiday, and if there has been a profit he receives a bonus which may be anything up to Rs. 1,000 and is generally about Rs. 150 to Rs. 300. After his holiday he has a second period of three years employment with a salary of Rs. 1,000 to Rs. 2,000 for the triennium, and the usual allowances ; his bonus this time being anything up to Rs. 1,500 and usually about Rs. 500. In a third period salary may be Rs. 1,500 to Rs. 3,500 for the triennium, and the bonus anything up to Rs. 3,000. In the meantime, after his fourth or fifth year he may have become an accountant or cashier ; after his seventh or eighth year an assistant. He may also have served a turn as sub-agent in an out-station. If specially capable he may have become an agent ; but usually thirteen to fifteen years experience are required for this, and some never succeed to this extent. From his third triennium until he becomes an agent his salary and bonus do not increase much as a rule.

467. Chettiars who are of a proprietor's family go through the same training as others for five or six years and are said to receive no special consideration from the agents under whom they serve. They

commonly act for a time as accountant and as cashier. Thus the proprietors are always familiar with the work done in their offices, even down to small details.

468. **Chettiar Agent.**—Unless the contrary is indicated here paragraph 464 relating to *Establishment* relates also to agents. The agent * is engaged on a three years' contract. He receives for the triennium a salary of about Rs. 6,000 to Rs. 15,000, and gets also pocket-money and free board and lodging like the rest of the establishment. The amount of the salary depends upon the remoteness of the place of business as well as the agent's capacity and the volume of business. One-half to two-thirds of the three-years' salary is paid one month after taking up the agency, the larger proportion being paid by the richer firms. This advance is sometimes deposited with the employing business at the Chettiar *current rate* of interest (described in paragraph 502); but more generally it is remitted to the agent's wife for her maintenance or lent at *veyan vatti* (paragraph 500); to other businesses. The remainder of the salary is paid after the expiry of the three years when the agent arrives in Chettinad on leave. The bonus is reckoned as 6 to 10 per cent of the net profit earned during the three years' agency. Leave usually lasts two and a half years. During leave an agent receives no salary or other emoluments although he may occasionally help his principals with their accounts. He may do a little private lending; but he will forfeit his bonus if he does a regular moneylending business. An agent whose work is particularly good may be rewarded eventually by admission to the partnership. Some Chettiars believe that their agents are more earnest in trying to make their business a success than are employees of banks, and even advance this as a reason against attempting to establish in Burma banking on western lines.

469. An agent holds a power-of-attorney conferring upon him full power to do anything required for the business of the firm. He carries on the business as he thinks proper subject to instructions given by the proprietors from time to time as circumstances or the agent's periodical reports suggest. He sues in the courts in the name of the firm as its authorised agent.

470. When the triennium of one agent has only about six months still to run his predecessor generally arrives and uses the time at his disposal to get acquainted with the business generally and its clients. When the new agent takes over the business he classifies all the outstanding loans as good or bad, and submits to the proprietors a report of the amount in each class. Since the bad and doubtful debts will make little or no contribution in the calculation of the profits upon which his bonus will be calculated, the outgoing agent generally tries to collect as much upon them as he can. The incoming agent also, not

* The Chettiars use the designation *agent* also in Tamil.

wishing to bear any losses on account of doubtful loans, generally calls in any other loans which he considers doubtful, and either insists upon repayment or demands a higher rate of interest. If the two agents disagree the matter is referred to the proprietors who sometimes call friends to arbitrate ; usually there is no disagreement because there is a tradition of what is fair and reasonable. Moreover, owing to the system of three years work and three years leave, it generally happens that the outgoing agent on one occasion comes back after three years to take over again, so that two agents have charge of a shop alternately for a long series of years.

471. Total Chettiar Capital in Burma.—The total amount of loans to non-Chettiars shown by our special Chettiar census described above† was 31 crores * of rupees for the 1,105 Chettiars reporting. The Association's estimate for the remaining 550 Chettiars is 9 crores, thus making a total of 40 crores for the whole country. This estimate includes the capital of all Nattukkottai Chettiars, whether they are members of the Association or not ; and it excludes the capital of all other Tamils, whether Chettiars or not. But from the description given above of the taking of the census it will be seen that the census was likely to yield too low a total ; enquiries in other directions have convinced us that this has actually occurred. The Income-tax Department felt that there was no breach of confidence in giving us an estimate of the total working capital in each district based upon the records made in connection with its assessments ; allowing a rough estimate for the comparatively small capitals of the 95 firms assessed in Madras and not included in the Burma records, these gave a total of 47 crores. We have also made a third estimate with the special knowledge of the Diwan Bahadur A. M. M. Murugappa Chettiar, who is one of us. In making this estimate each district was taken in turn, and for each a list of all the towns and villages having Chettiar businesses was made and the capital at each separate centre was estimated. This process seemed likely to average out under-estimates and over-estimates, and to give a fair idea of the grand total. We thus reached estimates of 43 crores for Lower Burma without Rangoon and 4 crores for Upper Burma. In estimating for Rangoon special care is needed to avoid counting a second time about 10 crores of capital supplied to Chettiars in the districts ; with this caution our estimate for Rangoon, formed by dividing the businesses into four grades for which we reckoned average capitals of 50, 25, 6 and 3 lakhs respectively, came to 33 crores. Adding this to the estimates of 43 and 4 crores above, we obtain a total of 80 crores for all Burma. We have checked the estimates for some important districts by estimates made by local Chettiars, and in the case of Pyapôn District we had an estimate by the late U. Thet She who

* In counting rupees in India the term *crore* is used to denote ten millions.

† Paragraph 455.

was an exceptionally large Burman lender working on the scale of a large Chettiar firm and had close business associations with the Chettiars. We think on the whole that an estimate of 75 crores cannot be seriously wrong ; we set 65 crores as an unassailable minimum, but we think 75 crores (750 millions) is the most probable estimate.

472. Anticipating later paragraphs of this chapter we reckon about 100 millions of this are borrowed from non-Chettiar sources including banks, and about 115 millions are obtained from deposits by Chettiars ; thus the capital used by firms working in Burma and owned by the proprietors of those firms is about 535 millions. The Diwan Bahadur A. M. M. Murugappa Chettiar, on being presented with this deduction from his estimate, remarked that it agreed with the universal estimate of 50 to 55 crores in Chettinad. It is moreover generally accepted amongst the Chettiars that on an average about two-thirds of the working capital in Burma is supplied by the proprietors : on this basis also the correct estimate for the total working capital would be about 75 crores. Further confirmation is afforded by the calculations given three paragraphs later, so that there is a clear convergence of evidence supporting our estimate. It will be observed that according to the statements at the beginning of this paragraph a total of about five-sixths of all the working capital, say 64 or 65 crores of rupees, is Chettiar money although only 50 to 55 crores belong to the proprietors of the businesses. In June, when bank advances are at their minimum, the amount of non-Chettiar capital would be only about $7\frac{1}{2}$ to 8 crores or roughly one-eighth of the whole working capital at that time.

473. The working capital of 75 crores in Burma may be compared with the estimates by the Diwan Bahadur A. M. M. Murugappa Chettiar of the Chettiar working capital in other countries, namely the Straits Settlements and Federated Malay States, taken together, 25 crores, Ceylon 14 crores, Cochin-China 5 crores and Madras 1 crore. Adding the 45 crores of these four estimates to the 75 crores of Burma and disregarding the relatively trifling sums for other countries, a total of 120 crores (1,200 millions) is reached for the total working capital of the Chettiar financiers.

474. The probable distribution of the total working capital between trade and agriculture is as follows. In Upper Burma one crore to agriculture and three to trade ; in Lower Burma 45 to 50 crores to agriculture and 21 to 26 to trade. Thus about two-thirds of the total loans go to agriculture in Lower Burma and in the country as a whole, while, of the comparatively small total in Upper Burma, one-fourth goes to agriculture. Of the agricultural loans we estimate roughly 10 to 12 crores are crop-loans given and repaid every year and corresponding immediately to the annual expenses of the cultivators. In April and early May the district Chettiars often have a certain amount of capital lying idle, waiting to be used in the agricultural loans of the next

cultivating season. It has been reported to us that in Bassein about 20 per cent of the total is thus idle ; but that seems to be an over-estimate. The Chettians send their spare money to Rangoon Chettians ; these are generally able to use it to finance paddy dealers or other traders, but occasionally they have deposited money in the banks at this time of year.

475. Our Chettian census, which purported to give the statistics for 1,105 businesses and showed a total of 31 crores of loans, showed 14 crores of loans secured by mortgages. Our Chettian member thinks this is not correct and that a closer approximation is given by reckoning the following as secured on mortgages : one-half the loans to agriculture in Upper Burma and to trade in Lower Burma, one-third of loans to trade in Upper Burma and two-thirds of loans to agriculture in Lower Burma. This gives approximately 45 crores of loans on mortgage and 30 crores of other loans. Of crop-loans our Chettian member estimates that 4 or 5 crores are on mortgage and 7 or 8 on other security.

476. A rough test of the credibility of the estimates may be made as follows. The Pegu and Irrawaddy divisions of Lower Burma have a total of 6·8 million acres of land under the ordinary winter rice-crop ; at an average of Rs. 100 per acre this land is worth 68 crores of rupees. Similarly the four districts of Akyab, Toungoo, Thatôn and Amherst have 2·2 million acres, which at Rs. 50 per acre are worth 11 crores. The other districts of Lower Burma have few Chettians and can be neglected here. We thus have a total of 79 crores value of paddy-land in the districts served by Chettians. In addition the six million tons of paddy annually produced by this land has not been worth less than 42 crores, * and we may still add 7 or 8 crores for the value of 1½ million acres of land growing other crops than paddy and for the annual produce of such land. We thus reach a total value of about 128 crores of rupees for land and agricultural produce providing cover for loans in the districts we are considering. Accordingly our estimate of 45 to 50 crores for agricultural loans of Chettians in Lower Burma does not appear excessive. The addition to be made for Upper Burma is too small to involve serious error, and our estimate is supported by the figures of the Income-tax Department. These calculations also support the estimate (made by the Chettian member of the committee) of 10 to 12 crores for crop-loans, since this sum may be compared with 42 crores a year taken as the value of the paddy crop.

477. We have been told that during the last four or five years there has been some diminution of the Chettian capital in Burma ; but the Diwan Bahadur A. M. M. Murugappa Chettian does not think this is true. While however there has been no actual transfer of capital there

* Taking Rs. 145 per 100 baskets as the Rangoon value less the average cost of carriage and intermediate profits from the threshing-floor to Rangoon, as in paragraph 150.

has been something similar to that, because some of the profits which would generally be invested in Burma have been sent away. This has been due chiefly to the attractiveness of Cochin-China as a field for investment ; in a country in the first flush of development there is a prospect of large profit by safe lending, and the transfer of capital illustrates the readiness of the Chettiars to move their business in search of profit. Some say that contributing causes have been the recent depression in Burma's rice-trade, and the attempts which were made one or two years ago in a few localities to organise refusal to pay taxes or the dues of Chettiars. The possibility of the political separation of Burma from India is also said to play a part, the Chettiars fearing that the separation will lead to double assessment to income-tax in Burma and Madras, and also thinking that the attempted organised refusals to pay their dues presage unfair treatment later on if the political connection with India is broken.

478. On the other hand it is estimated by the Diwan Bahadur that only about twenty or twenty-five years ago the total number of firms in Burma was about 350 and their working capital 15 crores ; that is to say about one-fifth of the present working capital and rather more than one-fifth of the present number of firms.

479. **Sources of Working Capital.**—We have already seen that about 500 to 550 millions or two-thirds of the total working capital of the Chettiars is supplied by the proprietors of the various firms from their own money. Of the remainder rather more than one-half is obtained as deposits from other Chettiars and only the residue is derived from non-Chettian sources. Thus altogether only about one-seventh of all the working capital is supplied by non-Chettiars, including the banks worked on western lines. The part supplied by non-Chettiars is not however without importance. The Nattukkottai Chettiars' Association has stated in its evidence before us that the failure of some Chettian firms about August 1929 has caused the confidence of non-Chettian depositors to diminish, and that the consequent reduction of their deposits has been one cause of the recent restriction of Chettian advances to trade.

480. The marginal statement gives estimates of the total amount of working capital obtained from various non-Chettian sources.

Advances from Burma banks	30
Deposits in Rangoon	50
Other deposits in Burma	7
Advances from Madras banks	13
Deposits in Madras	2
Total	102

All the numbers represent millions of rupees and relate to the months of January to March when the advances from banks are highest ; in June the total would be less by about 20 to 25 millions owing to repayment of part of those advances. The figures given for capital raised in Madras relate only to capital used

in Burma ; as already noted, the total capital used in Madras is very small compared with that used in Burma. About 15 per cent of the non-Chettiar capital is thus raised in Madras. The separate sources of capital are treated in the following paragraphs. One-half of the total is derived from deposits in Rangoon ; in fact only seven millions of deposits and less than three millions of advances from banks are obtained in Burma outside Rangoon. Thus for money not supplied by their respective proprietors or as deposits received through the proprietors from their Chettiar friends, district businesses rely almost entirely upon the Rangoon Chettiars ; the total amount supplied to the districts on this head is estimated at 100 millions (10 crores).

481. Average Cost of Working Capital.—The cost of capital obtained from each separate source will be noted below in the separate accounts given for the various sources. The Rangoon Chettiars estimate the average cost of their working capital at about ten per cent per annum, probably a little on the lower side of ten. In the districts the average cost is said to be about twelve per cent.

482. Proprietors' Capital in a Chettiar Business.—Each agent of a Chettiar firm receives from the proprietors a separate supply of capital with which to manage his business, including any *utkade* which may be attached to it. There are two systems on which this supply is given. The usual arrangement which applies to all Rangoon businesses and to most others besides, is to have what is called on " agency account " (*adali kanakku*) and is described in the next paragraph. The other arrangement has a " current account " (*nadappu kanakku*) and applies to many, but not all, agents in places outside Rangoon of firms which have in Rangoon an office from which further working capital can be supplied ; this arrangement is described in the next paragraph but one.

483. Proprietor's Capital supplied on Agency Account.—In a business with an agency account the capital supplied by the proprietors is divided into two very unequal parts. The smaller part is called *mudal panam** and the larger part is called *sontha thavanai panam*.* In English the two parts are commonly called owned capital and borrowed capital (or surplus capital) respectively, while the term capital when used alone means the " owned capital." But both are in fact the proprietors' capital, and, in the event of winding-up, rank after all claims by creditors who are not partners. The distinction between them is only a matter of the arrangement for sharing profit and paying the agent's bonus. Dividend in respect of

* It would be more idiomatic to write these Tamil terms as a single word in each case ; but we have divided them for the convenience of readers who are not familiar with Tamil. The same applies to several other Tamil terms used in this chapter. *Mudal* = first ; *panam* = money ; *sontha* = self ; *tharai* = period.

the owned capital is only drawn on making up the accounts for an agent's triennium ; interest at a certain rate is credited to the partners in respect of the borrowed capital every six months and is not included in the profit on which the agent's bonus is reckoned. The owned capital *mudal panam* ordinarily amounts to 1 or 2 per cent of the total working capital ; but the amount in any particular case depends upon the amount of business to be done, the standing of the principals, and their desire to secure the particular agent's services. In Rangoon the usual amount of owned capital is fifteen or sixteen thousand rupees ; but some businesses have as little as three thousand while four or five have a hundred thousand. Outside Rangoon the range is from three thousand up to about fifty thousand. The borrowed capital (*sontha thavanai panam*) may constitute any proportion of the working capital from 40 per cent upwards. In many cases all the working capital except the small owned capital is provided in this form ; in others some may be provided by deposits. In Rangoon businesses the proprietors supply on an average about 60 to 70 per cent of the working capital in this form. The interest due to the proprietors for the borrowed capital is reckoned at "current rate" (*nadappu valli*, paragraph 502) or at a rate fixed in relation to that and differing from it by not more than two annas in excess or defect, and is credited as noted above. No uniform relationship exists between the relative shares of *mudal panam* and of *sontha thavanai panam* respectively contributed by the several partners.

484. Proprietor's Capital supplied on Current Account.—When the proprietors supply capital on current account they supply a small *mudal panam* of one or two per cent of the total working capital exactly as in the case of an agency account. Further capital is supplied by loans from the Rangoon office at some agreed amount, not exceeding two annas, above the "current rate" of interest (*nadappu valli*, paragraph 502). The capital so supplied is subject to the *magamai* charge (described in paragraph 439) of a quarter-anna per Rs. 100, the amount of the outstanding at the end of one year being reckoned for this purpose as a remittance in the next. Since about two-thirds of the working capital of the Rangoon office, from which the loans are taken, is supplied by the proprietors, and generally very little other working capital is used by businesses with capital arranged on this basis, about two-thirds of the working capital of these agencies is supplied by the proprietors. In some cases a small amount of *sontha thavanai panam* is given, so that the arrangement comes to resemble in some degree that of an agency account.

485. Advances from Joint-stock Banks.—The joint-stock banks make advances to Chettiairs in Rangoon in three forms known respectively as loans, cash-credits and overdrafts, the term "cash-credit"

being a misnomer as is explained in paragraph 487 for a particular class of overdrafts. The total amount advanced in Rangoon is about 36* millions at the maximum; of this about 21 to 23 millions are loans and 13 to 15 millions overdrafts. Of this total the Imperial Bank supplies about 20 millions, Lloyds Bank 7 millions and the National City Bank 5 millions; the Chartered Bank and the National Bank supply one million each while the Central Bank of India, the Netherlands Bank, the Mercantile Bank, and the Allahabad Bank make up about 2 millions more between them. The Hongkong-Shanghai Bank and the Yokohama Specie Bank do not take up this business. In addition the National Bank of India advances about 0·7 millions at its Mandalay branch, while the Imperial Bank makes advances at its branches as follows: Moulmein 1·5 millions, Mandalay 0·3 millions, Bassein 0·3 millions, Akyab 0·2 millions, Myingyan little or none; total 3 millions. The grand total of advances from banks for all Burma is thus rather under 40 millions; but since, as we explain below, the overdrafts are only partially used, the total outstanding of these advances rarely exceeds 30 millions even at the busiest time of the year. On the 30th June the total outstanding would perhaps be as little as 7 or 8 millions, because some of the loans are called in for that date; the Imperial bank, for instance, recalls all loans in June and leaves only the overdrafts (including the "cash-credits") outstanding. Thus the proportion of that part of the working capital which is supplied by the banks in Burma and Madras together to the total amount varies from less than 2 per cent to about 6 per cent at different times of the year. The largest total amount up to which one firm's signature is accepted by any one bank is said to be six hundred thousand rupees, including signatures for the loans described in paragraph 486 and for all bills discounted. The full amount of a loan is reckoned against this total for each of the two firms who sign the promissory-notes. Cash-credits and advances against government securities however are not reckoned against this limit which is thus for clear credit only.

486. The banks in Burma take for the loans promissory-notes payable on demand and signed by the borrower and another Chettiar firm. At the Imperial Bank a separate note is generally made for every Rs. 20,000, while at other banks the value of each note is generally Rs. 25,000; but some notes are for larger values than these. The usual form of the promissory-note is a promise by the second firm to pay the amount of the note to the borrower at the bank; the borrower endorses the note in favour of the bank† and gives half the money to the other firm in accordance with a private arrangement of which the

* All numbers in this paragraph are estimates by our Chettiar member.

† A copy of one of these notes is given as the second example in paragraph 332.

bank has no cognisance. The Chettiars would prefer to sign notes individually for half the amount in favour of the bank and get one other to sign each note as guarantor. Although the note is payable on demand there is an understanding that the bank will demand payment of principal and interest at the end of an arranged period (which is frequently three months) and not before, except at the National Bank of India which collects the interest and requires renewal of the note every month. In Rangoon the Imperial Bank charges generally 1'5 to 2 per cent per annum above bank-rate for interest, while other banks generally charge from 2 to 3 per cent per annum above bank-rate. The banks outside Rangoon charge one-half per cent per annum more than the banks in Rangoon. In all these cases the rate of interest is fixed once for all when the loan is arranged ; it does not fluctuate with the bank-rate during the currency of the loan.

487. Overdrafts given by the Imperial Bank of India are secured by Government paper or by promissory-notes payable on demand ; with a promissory-note there is a deposit as collateral security of title-deeds of house-property situate in Rangoon and worth twice the maximum of the overdraft. The overdrafts secured by promissory-notes are commonly mis-called "cash-credits" and are ordinarily limited to Rs. 100,000 for any one party. Further the maximum amount of each promissory-note is generally Rs. 25,000, and a guarantor is required for each ; thus a "cash-credit" of Rs. 50,000 requires house-property worth Rs. 100,000 and generally two promissory-notes each of which needs a guarantor. The guarantor of a cash-credit signs an elaborate contract of guarantee. Other banks generally divide the borrowers into three classes A, B and C and allow maximum overdrafts of fifty, thirty and twenty thousand respectively to members of these classes on the security of a promissory-note payable on demand and signed by the borrower and one guarantor or joint borrower, who must generally be of the same class A, B or C as the principal borrower or of superior class. The maxima apply to the total for which a firm may sign in any way either as principal or as guarantor ; but some banks allow some firms more than Rs. 50,000. A second document, called by the Chettiars an agreement, is also signed by the borrower and given to the bank ; but it is merely a declaration, in the form of a letter addressed to the bank, that the borrower will remain liable on the promissory-note "notwithstanding the fact that by payments made into the account of the Overdraft from time to time, the Overdraft may from time to time be reduced or extinguished or even that the balance of the said account may be at credit." This document is known to the banks as a "cash-credit agreement" or "letter of continuity" ; the need for it arises out of a well-known legal principle and it is in common use by the banks in many other classes of their transactions. Usually the rate of interest on a Chettiar overdraft at the Imperial Bank (which advances the largest

total) is $1\frac{1}{2}$ to 2 per cent above the current bank-rate ; other banks sometimes charge the same as the Imperial Bank, but generally take one-half or one per cent more. At branches outside Rangoon the rate is 0·5 per cent per annum above the rate at the Rangoon office. Interest is payable on the daily balance outstanding, with monthly rests and with a minimum for each month equal to the interest for ten, twelve or fourteen days upon the maximum arranged for the overdraft. The Chettiars take care to use an overdraft in every month to the extent that will incur, at the agreed rate of interest, the minimum amount of interest for the month, and generally let the rest remain undrawn as a reserve for liquid resources. Thus only about four to five million rupees are outstanding at any one time and only a negligible proportion of the working capital is provided by these loans. In fact the provision of working capital in this way is merely an accident due to making this way of providing liquid resources as economical as possible.

488. In Madras the advances by the banks are made almost entirely by way of loan, only about half a million rupees of a total of about 13 millions being made by overdraft. The Imperial Bank advances about 6 millions, the Indian Bank nearly 7 millions ; the advances by other banks are very small. The Imperial Bank charges interest for either loans or overdrafts at one per cent above the bank-rate ; the Indian Bank charges $1\frac{1}{2}$ per cent above the bank-rate in the busy season, $\frac{1}{2}$ to 1 per cent above the bank-rate in the slack season. It will be noticed that the Imperial Bank's rate is one per cent less than it charges in Rangoon. The Chettiars are unable however to get more of their loans in Madras so as to save this one per cent ; overdrafts must be taken near at hand in Rangoon because they have to serve for liquid resource.

489. **Deposits by Non-Chettiars.**—A few deposits are received from non-Chettiars in most large centres, but the amount is negligible everywhere outside the four towns of Rangoon Moulmein Bassein and Mandalay, and in many of the smaller centres there are no deposits by non-Chettiars at all. Even in Moulmein Bassein and Mandalay the deposits are not large, and the total of all deposits held by Burma Chettiars outside Rangoon is estimated at 7 million rupees, while the total for Rangoon is estimated at 50 millions. The total of 57 millions forms roughly 60 per cent of the total working capital supplied by non-Chettiars, most of the remainder being supplied by advances from the banks. Non-Chettiar deposits also form about 8 per cent of the total working capital of the Chettiars. Some Chettiars decline to accept deposits because in their localities they could only get deposits on current account, and they do not want the responsibilities and trouble which these entail. Many who would be willing to accept deposits get none offered to them. In some Rangoon businesses which get deposits

from non-Chettiars as much as 20 per cent of the total working capital may be derived from deposits by non-Chettiars, but the proportion is generally much smaller.

490. The marginal table shows in millions of rupees the amount of

—	Fixed.	Demand.	Total.
Rangoon	40	10	50
Elsewhere	4	3	7
Burma	44	13	57

working capital estimated to be obtained in Burma by deposits from non-Chettiars (excluding advances from banks) and divides it between fixed deposits and deposits repayable on demand, including in the

latter description the two kinds of deposits described in the next paragraph. *Fixed deposit* in Burma always means a deposit made for some definite period, whether the deposit is made with a Chettiar or with a bank worked on western lines. The Chettiar names for a current account and a fixed deposit account are *katha kanakku* and *fixed deposit* respectively.

491. The Chettiars make a distinction between demand deposits and deposits on current account. The latter class can have money added to them or withdrawn at the will of the depositor; demand deposits are subject to an undertaking to repay any part or the whole whenever the depositor demands it, but no additions to the account are to be made. In practice this rule about additions to demand deposits is naturally not complied with rigidly, and there seems to be little practical difference between demand deposits and current account deposits save that cheque-books are not given for demand deposits. Non-Chettiar depositors of demand deposits are generally lawyers and other professional men; those of current accounts are almost entirely traders and shop-keepers. Receipts are sometimes given for demand deposits and may or may not bear a receipt-stamp; in some cases a demand promissory-note is given instead. Sometimes the same is done for deposits on current account; but usually a pass-book is given to the depositor and all further deposits and all withdrawals are noted in it. Some customers make the entries in the pass-book themselves and send it to the Chettiar by a messenger; the entry instructs the Chettiar as to what he is required to do and he initials it after complying. Interest on non-Chettiar current accounts is reckoned on the daily balance and is paid at intervals of six months; the rate is generally half an anna to two annas per cent per mensem below the Chettiar "current rate" (paragraph 502) and accordingly ranges as a rule from 5 to 11 per cent per annum, varying monthly throughout the year and from year to year in accordance with the variations of the "current rate." The relation to the "current rate" is a matter of arrangement for each account. Large firms generally pay lower rates than small firms.

492. In the larger towns cheque forms, resembling closely the cheque forms of European banks, are supplied for payment to third parties. A few days notice is expected when a cheque is to be presented for a sum which is unusually large for the particular client. The general practice however is that, like *kanda maru nal hundis*,* all cheques presented without previous notice are marked with the date and time and initialled by the Chettiar and returned to the presenter for presentation again in the morning or afternoon of next day according as the first presentation was in the morning or afternoon ; payment is made at once on the second presentation. This practice is a device of the Chettians to avoid the expense of maintaining liquid resources ; they like to have all their capital actively employed and not merely waiting in the till to meet contingencies. The reason given for the custom by the Chettians is that many of the depositors are traders who overdraw their accounts during the day and only make up the balance at the close of the day's business. These two explanations together show that the custom of delaying payment developed for the mutual convenience of the bankers and the trading community. There is a way in Rangoon to get a cheque paid immediately on presentation if the drawer wishes this to be done ; the drawer must mark the cheque " urgent." Usually this is symbolised by putting a " double seal," which may be explained as follows. Generally the trading name of the drawer is marked upon a cheque in English by a rubber stamp just above or beside the signature of the agent or manager, which may be in English Tamil Chinese or any other language in common use. The stamp is commonly made in an elliptical design with the name written in the border and a date in the middle. Recently machines which use no ink but press the device into the substance of the paper have been adopted by some Chinese customers. A " double seal " is made by stamping the cheque a second time near the upper left-hand corner. Interest on the amount withdrawn ceases to accrue on the date of first presentation of a cheque.

493. When a customer having a current account wishes to withdraw money from it he does not generally write a cheque payable to himself but either writes a memorandum that he wishes to withdraw or makes a note of the withdrawal in the pass-book which he then sends to the Chettiar. These devices were used to avoid paying the stamp-duty on cheques and still persist although that duty has been abolished. Some firms however, ask their customers now to use the cheque-forms for these withdrawals.

494. With effect from the 11th June 1930 the Bank of Chettinad obtained access to the clearing in Rangoon through the Imperial Bank of India. Apart from this there is nothing corresponding to a system of

* See paragraph 374.

clearing for cheques drawn upon Chettians. These are sometimes paid in to the banks worked on western lines, and are then sent to the Chettiar for payment in cash, the bank making a small charge to its customer for the trouble. It is said that cheques upon Chettians are never crossed. Endorsements of cheques are recognised in the ordinary way.

495. In approved cases depositors on current account are allowed unsecured overdrafts, that is to say they are allowed (provided they have arranged the matter with the Chettiar beforehand) to withdraw more than they have deposited, are not not required to give security on this account, are able to pay in money whenever they please and are charged interest only on the daily outstanding. The rate of interest charged varies from half an anna to four annas per cent per mensem above "current rate" (described in paragraph 502).

496. Fixed deposits, although now forming so large a part of the total amount of deposits by non-Chettians are an innovation as a common way of obtaining such deposits. Until about ten years ago nearly all deposits by non-Chettians were on current account although about 30 to 40 per cent of them were made by customers who made no withdrawals or, even if they had cheque-books, could be relied upon to give notice. A few non-Chettians were allowed to make the two-monthly fixed deposits known as *thavanai* deposits and described below in dealing with deposits by Chettians; that practice still continues on a small scale. The number of other fixed deposits was still small until about two years ago (1928) when some of the larger firms, on account of the responsibility for maintaining liquid resources for current accounts, began first to exercise more care in the selection of depositors and generally to arrange for money on current account to form a rather smaller part of their working capital. With this object in view they began to take fixed deposits from non-Chettians for 3, 6 or 12 months either at a fixed rate of interest or at a fluctuating rate one anna or two annas below the "current rate" (*nadappu vatti*, described in paragraph 502). Since the crisis which occurred in Chettiar business last year (August 1929) many firms have followed this example, some of the smaller ones paying interest at half an anna or one anna above the current rate. These deposits are fixed deposits in the same sense as are fixed deposits in European banks in India, namely deposits repayable on a date fixed at the time of depositing; but in practice withdrawal before expiry of the period is often allowed without any penalty, interest being paid at the agreed rate for the whole of the expired part of the period, subject to discount on the interest in consideration of the time still to elapse before the payment becomes due. Apparently some time is required for depositors to learn to abide by the condition for repayment only at due date. So far the most usual period of deposit has been three months, and fixed rates have been more popular than the

fluctuating rates. Fixed rates are generally from 7 to 10 per cent per annum, the biggest firms paying 6 to 9 per cent but not getting much money in this way. The depositors of fixed deposits are generally lawyers with some doctors and landholders and a few others. Some firms give for fixed deposits a receipt in a form similar to that used by European banks ; but most give a promissory-note payable on demand.

497. Some Chettiars, both in Rangoon and outside, borrow either on *veyan vatti* (see paragraph 500) or at fixed rates from Marwari Multani and Gujerati bankers. In this way they are often able to obtain funds at reduced rates of interest for convenient periods. In some cases there may be an advantage in the fact that such borrowings do not readily become known to other Chettiars.

498. **Deposits by Chettiars.**—The total amount of deposits by Chettiars in Burma is estimated at about 11 to 12 crores or, say, one-seventh to one-sixth of the total working capital. A large part is made up of deposits by relations and friends, such deposits being spoken of collectively as *thanathu maral panam* (which means literally "money through self") because they come to the business through the proprietors. An example of *thanathu maral panam* is the dowry of a partner's son's wife deposited, as is customary in an undivided family, with the firm ; another example is the salary and bonus due to a partner's son in an undivided family for assisting in the business ; still another is money given to a partner for a deposit by a friend who has no wish to carry on a business himself. Other Chettiar deposits are obtained from moneys belonging to women or minors and divided up for investment in several firms for safety. Formerly all Chettiar deposits were made as *thavanai** deposits ; but in the last ten years, as the result of better education, many Chettiars have recognised that they can get a better return for their money by depositing on *veyan vatti*†. These two forms of deposits will now be described. There are no Chettiar deposits payable on demand besides the call-money described later in this chapter.

499. **Thavanai Deposits.**—*Thavanai** deposits are a class of two-monthly fixed deposits which has existed for a very long time, and, as stated above used to be the regular form in which Chettiars made deposits. The terms of these deposits, apart from the rate of interest, need no discussion by the parties because they are fixed by custom. For the rate of interest also there is a standard in the *thavanai* rate, fixed by the general body of Rangoon Chettiars, and described in paragraph 506 ; the interest on any particular deposit is arranged as equal to or so much less than that rate. Most *thavanai* depositors are still Chettiars ; in fact there are only a few such deposits by non-Chettiars.

* *Thavanai* = period.

† *Veyan* = additional ; *Vatti* = interest.

Chettiar depositors are given as a rule the full *thavanai* rate of interest, but non-Chettians get a rate one anna or two annas lower. Outside Rangoon a rate half an anna above the *thavanai* rate is sometimes paid for two-month deposits because it still works out more economically than other ways of raising capital ; sometimes the smaller firms in Rangoon too pay Chettiar depositors as much as half-an-anna above the *thavanai* rate. A higher rate than this is never paid. The rate of interest does not fluctuate with the *thavanai* rate during the two-months of a deposit; it remains throughout the period as fixed in relation to the *thavanai* rate of the first day. Most deposits are continually renewed for years on end, the interest being added to the principal at each renewal, although both principal and interest may be drawn at the expiry of a two-monthly period if the depositor wishes to have them. When a deposit is renewed, the *thavanai* rate of the day of renewal applies instead of that of the expiring deposit, the same relation between the *thavanai* rate and the rate for the particular deposit still holding good. If repayment of a deposit is asked for before the period expires it will generally be given, the interest to date being reduced as usual by the proper discount corresponding to the period that ought to elapse before its payment. Generally a non-demand promissory-note is given to the depositor as evidence of his deposit ; a common form of such a note runs as follows : " I promise to pay to (name) on demand the sum of Rs. bearing interest at 1 anna less than the Chettiar *thavanai* rate prevailing in Rangoon." There is however an understanding between the parties that the terms of the deposit are the conventional terms of a *thavanai* deposit as described above. Since deposits of this class are only taken from Chettians and other people of well-known integrity, the Chettians think no risk is attached to a written promise to pay on demand. Civil courts would presumably refuse to recognize the understanding to vary the terms of the promissory-note, but it is hardly possible that a depositor should seek the aid of a court to assert his claim when the full period is only two months ; the Chettians are therefore justified in accepting this risk and so saving the stamp-duty that would have to be paid if the period were stated in the promissory note. The payment of a fresh stamp-duty on every two-monthly renewal would be prohibitive.

500. *Veyanvatti* *.—*Veyan valli* deposits are fixed deposits at a fluctuating rate of interest described by its excess in annas per Rs. 100 per mensem above current rate (or sometimes *thavanai* rate). For example : money lent at a *veyan.valli* rate of two annas would earn 13 annas per Rs. 100 per mensem while the current rate is 11 annas, and would begin to earn 14 annas per Rs. 100 per mensem if the current rate were raised to 12 annas. The amount of the additional

* *Thavanai* = period

† *Veyan* = additional ; *Valli* = interest.

interest is fixed by bargaining and increases as the period of the advance diminishes; e.g. the *veyan valli* rate of an advance for 12 months may be 2 annas, while for 6 months it might be 3 annas, for 4 months 4 annas, for 2 or 3 months 5 annas. All these rates may however be as low as $1\frac{1}{2}$ annas or as high as 5 annas, or rarely 6 annas, according to the conditions of supply and demand for money. A Chettiar in Madras who wishes to deposit money on *veyan valli* arranges with a Chettiar in Rangoon to be his agent to make the deposit for him, and he pays the agent a commission at 3 to 6 pies per rupee of interest earned. Thus for Rs. 10,000 deposited at 2 annas when the current rate is 14 annas the monthly interest would be Rs. 100 and the commission on this at 3 pies would be Rs. 1-9-0. Sometimes, for relations, no commission is charged but only out-of-pocket expenses. The usual periods for *veyan valli* deposits are three, six and twelve months. The depositor receives for his money a promissory-note payable on demand, so that the stamp-duty of a note payable otherwise may be saved. The note is expressed as a promise to pay on demand with interest at 2 annas (or as the rate may be) more than the Rangoon Chettiar current rate. The depositor receives at the same time a "memo" signed by the Chettiar receiving the deposit and expressed in the following terms:—

I have agreed with you this day to pay after six months with
veyan valli the sum of which I have borrowed
 from you by demand promissory-note dated this day

One would have expected the "memo" to be in a form signed by the depositor and given to the receiver so as to protect the latter against premature demand for repayment of the money. But the actual system works satisfactorily.

501. Standardised Rates of Interest.—There are two rates of interest which are fixed from time to time by the Chettiar community and used as the basis of all transactions between Chettiars which involve the payment of interest. They are known as *nadappu valli* (or "current rate"*) and *thavanai valli* (or *thavanai* rate) respectively. Several references have already been made to them and some account of them is given in the next two articles. It will be noticed that the term *veyan valli* explained in the paragraphs immediately preceding this is on a different footing; *veyan valli* is not a standardised rate but only an addition made in certain cases to one or other of the standardised rates, generally the *nadappu valli*.

502. Current-rate.—The *nadappu valli* or "current rate"* of Rangoon is the basic rate of interest for most transactions amongst Chettiars in Burma. It is the rate paid for deposits at call made by one Rangoon firm with another or for temporary accommodation taken as call-money by one Rangoon firm from another. It is also the basis to determine

* *Current rate* is the term used by the Chettiars when talking English.

the rates paid by most agents to their principals for the working capital supplied by the latter, the rates charged to firms outside Rangoon for loans from Rangoon, the rates (*veyan valli*) paid upon the larger class of deposits by Chettians other than banking firms, and the rates for all deposits on current account, whether made by Chettians or by non-Chettians. It is fixed in the evening of the 16th of every Tamil month* at a meeting held at 9 p.m. in the Chettian temple at Rangoon, and it holds good for all the current Chettian month including the sixteen days already passed. At this meeting the local heads of all Chettian firms in Rangoon may attend if they wish; those who lend to Chettian firms outside Rangoon are the most deeply interested and always try to attend, while the trustees of the temple are bound to attend if they can. Both principals and agents attend, but a principal who has an agent for his Rangoon business generally leaves the attendance to the agent. The meeting discusses the general financial situation, and fixes the current rate for the current month in accordance with this, taking into account the current pitch and tendency of the *thazanai* rate (paragraph 506), the rates current amongst the Marwaris Multanis and Gujeratis and the rates for advances by the joint-stock banks to Chettians. As every firm has both income and expenses determined largely by this rate, great care is taken to fix the rate according to the needs of the situation. But for the first sixteen days of the month, before the rate is fixed, there is a general consensus of opinion as to the rate that will be fixed, the weekly adjustment of *thazanai* rate and the discussions incidental to that adjustment being sufficient guide. The current rate is expressed as a certain amount per Rs. 100 per mensem, and as a matter of custom (since 1920) is not raised above one rupee or reduced below eight annas without the approval of a meeting specially convened with a warning of the importance of the occasion. It is said also that the current rate should not be raised by more than one anna at a time. Places outside Rangoon have a current rate of their own; it is not fixed locally but stands always at one anna above the Rangoon current rate except in Mandalay and a few other places where the difference is half-an-anna.

503. A statement showing the Rangoon current rate for every month for about 35 years is given in the second volume of this report. It is generally at its highest in January and February and at its lowest in August to October. In each of the four years 1926-29 its maximum was equal to about 10 per cent. per annum, while in each of three years before that the maximum was about 11½. In the four years 1925-28 the minimum was 6, in 1929 it was nearly 7 and in 1922-24 it varied from 6½ to 7½. Usually it is between 2 and 3 per cent above

* Chettians use the ordinary Tamil calendar. The months vary from 29 to 32 days in length, and agree closely with the months of the European calendar; as the year is of the same length as in the European calendar each Tamil month thus corresponds always to the same European month. The first day of a Tamil month comes always between the 13th and 18th of the corresponding European month.

bank rate *; but this difference is sometimes 4 when the rates are high and as little as 1 or $1\frac{1}{2}$ when they are low. The highest rate in our record for 35 years is Rs. 1-8-6 per Rs. 100 per month in February-March 1898, while the lowest is $3\frac{1}{2}$ annas in July-August 1909. A rate above one rupee has not been seen since February 1916, while since 1922 a rate of less than 8 annas has never been in force.

504. The average rate in each of the last 35 years is also given in the appendix mentioned above. It fell as low as 7 annas 7 pies per Rs. 100 per month in 1915, and rose to Rs. 1-3-7 in 1904; indeed it stood high throughout 1901 to 1905. For thirty years since 1900 to 1929 the average rate per Rs. 100 is 11 annas 11 pies per month or Rs. 9-15-0 per annum, and for the three decades separately the average rates have been 13·4, 10·9 and 11·5 annas in order. It is instructive to set out the averages for ten-yearly periods all along, as

'Ten years' averages.

Year.	Rate.	Year.	Rate.	Year.	Rate.
1900	...	1910	158	1920	136
1	...	1	147	1	138
2	...	2	142	2	139
3	...	3	140	3	138
4	168	4	132	4	137
5	175	5	123	5	142
6	171	6	125	6	141
7	169	7	127	7	138
8	164	8	128	8	138
9	161	9	131	9	138

has been done in the marginal table. There the year shown is the last year of the decade for which the average shown against it has been calculated, and the average rate is shown as the number of annas per Rs. 100 per annum. In this table the annual variations are smoothed out to some extent, and it appears that it is not possible to say there has been any continual tendency to fall or rise in the last 35 years.

The high averages at the beginning seem to belie this; but they are due to the exceptionally high years 1901 to 1905. In the same way the low averages in the decades 1913-24 to 1910-19 are due to the low average rate of 1915. The general trend of the rate seems to have been nearly level.

505. The ordinary fluctuations during a year are shown by the

Average 1925-29.

Months.	As.	P.	Months.	As.	P.
January ...	13	8	July ...	8	7
February ...	13	9	August ...	8	2
March ...	13	4	September ...	8	8
April ...	12	1	October ...	9	10
May ...	11	4	November ...	10	11
June ...	10	2	December ..	12	0

marginal table which gives for the Tamil month beginning near the middle of the English month shown the average rate in that month during the five years 1925-29. It is a little unusual however for the August rate to be less than the July rate.

* That is the rate at which the Imperial Bank of India advances money against securities of the Government of India.

506. **Thavanai Rate.**—Before 1920 the *thavanai* rate was the subject of a great deal of speculation and sometimes was made to change to suit the interests of speculators. But since 1920, it has been fixed in a systematic way every Sunday evening at 9 o'clock by a meeting in the Rangoon temple, subject to modification during the week in case that is generally desired by the community. The right to take part in fixing the rate on Sundays is the same as for fixing the "current rate" (*nadappu vatti*); but generally the decision is a foregone conclusion, and, unless the rate is standing particularly high or low or an abrupt change is expected, few attend the meeting, and sometimes another person has to be called to make up the quorum of three required for the fixing. Like the current rate the *thavanai* rate is fixed as some amount per Rs. 100 per mensem. It is not fixed according to the current rate; in fact the relationship is the other way about, the course of the *thavanai* rate being a consideration when fixing the current rate. As both rates follow the general financial conditions they naturally tend to move together. The *thavanai* rate is rarely reduced unless the current rate has fallen or is likely to fall. There is a tradition that the *thavanai* rate should be kept as steady as possible, and that it should not generally change by more than one anna at a time, and that it should always be at least half-an-anna (per Rs. 100 per mensem) below the current rate.

507. Although the *thavanai* rate is now formally fixed every Sunday it is still liable to change during the week if the general opinion of the community desires that. The morning meetings at the six-rooms afford the opportunity for discussion of the matter. If two or three agree that a change would be appropriate to the general financial situation they consult others, and if there is general approval all agree to regard the rate as changed and carry on business accordingly. There is an arrangement at the six-rooms for recording when a transaction at the new rate is done. Since 1920 these informal changes have been restrained by a convention that the rate should not be so changed more than twice a week nor by more than half-an-anna at a time.

508. A statement showing the changes of the *thavanai* rate for the last 35 years is given in the second volume of this report. Comparison with the table of current rates (also given there) shows that the two rates do move together, and that although the *thavanai* rate is often half-an-anna below the current rate it is often equal to it for a short period. On the 17th July 1928, the *thavanai* rate was actually fixed at ten annas although the current rate had been fixed at nine annas only one day before. This illustrated the tendency of the *thavanai* rate to move less abruptly than the current rate, the latter having dropped suddenly on this occasion.

509. Although the *thavanai* rate is often less than the current rate, there is little if any difference in the amounts of interest paid for equal deposits at the same amount below these two rates. The deposit at

512. Money lent for a fixed period by any one Chettiar firm to another is lent with *weyan valli*, the principal example of this being the money lent by Rangoon firms to supplement the capital of district firms; but generally in such cases the *weyan valli* rate does not exceed two annas. Even capital supplied by Rangoon offices to the district offices of the same firm is charged for on these terms. All these transactions are reckoned in when determining the amount on which the *maggama* charge of a quarter-anna per Rs. 100, described earlier in this chapter, has been incurred.

513. **Cash Balances and Liquid Resources.**—A Rangoon Chettiar's urgent need for cash arises from the necessity of paying cheques and hundis and interest on deposits and repaying the principal of deposits; in addition there is the need to have cash available when a profitable opportunity of lending arises and especially when a customer, relying upon the Chettiar for his finance, applies for an advance. Those Chettiar who neither receive deposits payable on demand nor do hundi business have only the last need apart from payments on fixed deposits; for these last they have always ample notice. The custom is to pay as much as possible into a bank every night and to take out next morning as little as seems indispensable for the day's transactions. This is supplemented each day by the receipts from traders and others who have advances; such receipts in Rangoon are said to amount to 1½ to 2 million rupees per day all the year round. In case more cash is required it is obtained by drawing against current accounts or overdrafts at the bank or by borrowing from other firms, taking either call-money or loans on *weyan valli* according to circumstances. Family connections of the proprietors may be of assistance occasionally in borrowing from other firms. With the advantage of having a day's notice for payment of most cheques and hundis, the ordinary demands of everyday business with occasional intensification without crisis conditions, can thus be met. But no provision is made for times of special stress. If only one or two firms felt stress but were sound, the others might help them carry over; but if a considerable number were affected this could not be done. Apart from the cash resources here described the Rangoon Chettiar has no liquid resources in Rangoon. A small amount of unredeemed gold pledges are sometimes available and can be sold or pledged; gold pledges for current loans too can sometimes be replenished temporarily; but no large amount of cash can be made available in this way, and, as much inconvenience would be attached to it, this method is not used. If a Chettiar's resources though his current account and bank overdraft and borrowings from other Chettiar are insufficient, he has for his only further resource the power of the principals in Madras to draw upon Chettiar and banks outside Burma, either in Madras or in one of the other countries where they carry on business.

All this can be arranged by telegram within a short time; but we do not think any considerable assistance would be obtainable in this way at a time when there was stress and contraction of credit in Burma.

514. In Mandalay Moulmein and Bassein, where alone (outside Rangoon) deposits are considerable, the problem of maintaining liquid resources resembles the same problem in Rangoon, the local branches of the Imperial Bank and the National Bank of India being the sources of cash reserves outside the Chettiar community. In addition to local resources the firms have power to draw upon their head offices in Rangoon, and in case they have no head office they can sometimes draw upon other Chettiars in Rangoon.

515. In other places outside Rangoon, deposits repayable on demand being small, the Chettiars' requirements of cash are measured chiefly by the excess of the loans they are likely to be asked to give above the moneys they receive. They arrange to meet these requirements by getting money from Rangoon and other large centres in a continuous flow adjusted to their actual position. As described in Chapter III the money is brought by messenger or obtained through the treasury and currency system of transfers or through the Imperial Bank. Temporary stringency due to a miscalculation of the demand is met by borrowing for a few days, always "at call" and generally free of interest, from other firms in the same town, to get time to bring the required extra money from the usual source. When the total provision amongst Chettiars in the town is inadequate, temporary loans are generally taken from the public. The Chettiars or their clerks visit shopkeepers, moneylenders and others likely to have a little idle cash and borrow it or persuade them to pay something to the Chettiars on their accounts; in this way the Chettiars are able to make up a considerable sum even if each contribution is small. Sometimes a trader is willing to accept for cash an *undial* (demand hundi) on Rangoon free of commission. As in Rangoon, a small amount of unredeemed gold pledges is sometimes available and can be sold or pledged; while gold pledges for current loans can also be re-pledged temporarily sometimes. Moreover some district Chettiars have occasionally a small stock of gold kept for sale. If the proprietors of the firm have a Rangoon office the application to that for cash is naturally as far as the agent in the district should need to go; the Rangoon office has its own facilities and must provide for him. Some that have no Rangoon office have an arrangement with some firm in Rangoon in which some of its proprietors or closely related persons have a share. All have ultimately the same resource abroad as the Rangoon Chettiars have.

516. The provision thus seems to be sufficient to meet the fluctuations of the demand for cash at ordinary times, but to be lacking in case of any specially difficult occasions. The bank-overdrafts arranged

8 million
the banks at
assured. Only about
securities are available on which bor-
of/a restriction of credit this wo-
in liquidating existing overdraft accounts
some of us think, the support of one Chettiar firm by
to be given in the future than it was in the past, th-
in the accommodation given by other Chettiars is
firms in times of stress.

517. The marginal table shows the amount of the deposits with the Chettiars as estimated earlier in this chapter. Of the 13 millions of demand deposits 10 millions are held in Rangoon, 3 millions outside. The figures for fixed deposits for 3, 6 or 12 months as well as the two-monthly deposits on *vanai* terms. Most of the deposits are by Chettiars and many others are constantly renewed.

Depositor.	Millions.
Demand deposits —	
All by non-Chettiars	13
Fixed deposits —	
By non-Chettiars	44
By Chettiars	115
Total	172

in ordinary times; but if suspicion arises as to the solvency of any firm such deposits are likely to be demanded from it. The deposits are upon a somewhat different footing from the others, because at some times, although the general body of non-Chettiar depositors might be uneasy, the Chettiars as a body might be undisturbed and meet the occasion by some mutual accommodation by individual firms in the general interest.

518. With the exception of our Chettiar members we are of opinion that the provision of liquid resources is insufficient, and that the Chettiars ought to make more provision in some way less likely to become useless in a crisis. The recognised way of course investment in the securities of Government and suitable local authorities; some provision is already made in this way, but it is inadequate even for the Chettiars were drawn as a few firms that make it. If bills discounted by Chettiar local banks were established as we shall propose later, the Chettiars would be able to obtain further cash resources by re-discounting trade bills with those banks. But still some further provision in the standard form of government securities is necessary if the Chettiars are to carry on banking with demand deposits satisfactorily. We understand and that in fact the holding of government paper has been increasing lately.

519. The custom of paying cheques and holding of government paper has been undisturbed on the day after and is worth a little special

attention in connection with our present subject. In its modern form at least the system of current accounts operated upon by cheques paid instantly on presentation is of European origin, and its use is especially developed in the United Kingdom and its colonies and in the United States of America. In other countries cheques are not used to anything like the same extent. There is possibly some racial quality that plays a part in making the system acceptable ; we must not without reflection press the European tradition of instant payments upon Indians and Burmans—these must express themselves in customs developed in accordance with the natures resulting from their history and traditions. The custom of paying after a day is probably related to the communal spirit of an Indian village, where the general village life and the practices of each occupational group had to adapt themselves to each other ; one aspect of this was that the moneylender was not expected to press his claims when harvests were bad, and in return the exigency of claims upon him had to be moderated. Up to a point a custom of payment on the day after claiming can work, and in fact it is working now. But even with these considerations in mind it is difficult to see how the custom can work in a highly organised commercial community or amongst a people in close financial intercourse with such a community ; it seems inevitable that the custom will set up a barrier to the continued development of that intercourse. If the custom of paying cheques strictly on demand grows up, the Chettians may still be able to meet everyday demands with the aid of the banks ; but besides holding the investments we have advocated above they will probably need to keep larger cash balances, and these may require further precautions against fire and theft.

520. It seems possible that a new kind of instrument differing from a cheque in being payable on the day after presentation might be developed. As the Negotiable Instruments Act defines a cheque as a bill of exchange drawn on a specified banker and *not expressed* to be payable otherwise than on demand, the documents used now as Chettian cheques are cheques within the definition. But the Chettian name of the banker implies that payment will only be made one day after demand, and accordingly the documents might be said to be expressed to be payable after one day, and a qualifying adjective before the word *cheque*, or an entirely different name seems to be needed, for them. If the delay of one day is expressed in these new documents the First Schedule to the Stamp Act will have to be amended so that they may be on the same footing as true cheques with respect to stamp-duty.

521. **Advances.**—Loans are given to finance agriculture, in the form of crop-loans and long-term loans, to finance trade and industry and also for private affairs such as marriages, funerals and religious ceremonies, and for household expenses. There is in addition a considerable

amount of money lent to other moneylenders to enable them to carry on their business. Loans to agriculturists form two-thirds of the Chettiars' business; but Chettiars finance also shopkeepers traders and all classes, using any profitable outlet for their money which is offered them. Some accounts of loans to these classes have already been given in Chapters IV to X. The Chettiars deal with all races and classes on equal terms, and the conditions of their loans are not determined by the purpose of the loan or the kind of borrower, but rather by the security for the loan and the profit it offers. This readiness to lend has in fact been carried in the past to undue lengths, as has been noted in Chapter IV; in failing to discriminate amongst purposes of loans and to control the application of loans to the purposes for which they were granted, the Chettiars contributed much to the increase of indebtedness in Lower Burma. It is still to be wished that, while continuing to treat all races and all classes on equal terms, the Chettiars would practice this discrimination and control. Complaints have been made by Burmans occasionally that Chettiars favour Indian borrowers; but there appear to be no grounds for the complaint. One aspect of the readiness to lend is the facility and celerity with which loans are arranged even by the most unsophisticated borrowers; the time elapsing from the first application for a mortgage-loan of three or four thousand rupees until the document is executed and the loan paid over is often not more than an hour. It is hardly possible for any other lenders to compete with the Chettiars in this respect; but a little sacrifice on this head is worth making to get control of the use of loans and to investigate security. It is to be noted however that Chettiars do not lend to an applicant who is not well-known to them unless he is properly introduced or gives good credentials.

522. Security for Advances.—Loans are sometimes given to well-known persons on simple on-demand promissory-notes, and are commonly given so to customers who already have a long-term loan account and are requiring crop-loans. Promissory-notes are also used as explained in Chapter VI to secure parts of long-term loans principally secured by mortgages. But for most loans security is required, and the commonest forms are land, houses, gold and jewellery, paddy and other produce. Standing crops, government securities, stocks and shares, launches, motor-cars and other conveyances are some of the less common forms. When gold or jewellery is pledged a "chit" is given by the banker; the chit is an acknowledgment of receipt of the property. When paddy or other produce is pledged the Chettiar alone has the key of one lock of the godown in which it is stored and he keeps a watchman there at the expense of the borrower. Gold is the most acceptable of the securities mentioned because it is usually easily

saleable; but gold is usually not available in sufficient value to cover large loans, for which a simple mortgage of land and other immoveable property is almost invariably the security.

523. In some parts, particularly Upper Burma and the newer parts of Lower Burma where much of the land is without a land-holder's title or its equivalent, land is not used much as security. Its chief defect is uncertainly as to title, and there is no doubt much scope for dishonest practices in creating second and third mortgages without disclosing the existence of prior encumbrances. Some of the fault for this lies with the Chettians themselves, because they do not make sufficiently thorough enquiry into the title and do not make enough use of the registration offices; this is not always due entirely to the difficulty of such an enquiry, but sometimes to a desire to accommodate a client who might be driven elsewhere if too rigorous an enquiry were made. In the long run however both the borrowers and the Chettians would benefit if Chettians would see that there is good title to land taken in security for loans and would keep the title-deeds in their custody and would further collect the receipts for land-revenue yearly and keep those also until the loan is settled. As a matter of fact Chettians as a class are already taking more trouble to enquire into titles to land than before, and there are some who require the receipts for the land-revenue of land mortgaged to them to be brought to them promptly. The improvement is due in part to experiences of loss through neglect of these precautions, and in part no doubt to the general depression of the last year or two, but it may persist even when more prosperous times come. Improvement in such matters is necessarily slow because it is impossible to move far in advance of the borrowers' comprehension of the matter; but a comparison of present practices with those of thirty to forty years ago, when settlers on new land in the delta were encouraged to borrow, shows a large advance. Burman borrowers will inevitably complain, if Chettians demand title-deeds, that Chettians are less ready to help them than formerly; but in the long run the borrowers will benefit by the practice.

524. **Rates of Interest.**—Some information as to the rates of interest on loans of various kinds has already been given in Chapters V to X. The rate for any particular loan does not generally depend upon the purpose of the loan, but, subject to the effects of competition amongst lenders and agreements amongst them as to minimum rates, is fixed mainly in consideration of the kind of security, the reliability and general position of the borrower and the size of the loan. Subject to the skill of the borrowers in haggling, loans for any purpose are granted at the same rates if these circumstances are the same. Very small loans, say loans under Rs. 100, naturally have particularly high rates; large loans, say above Rs. 5,000, get lower rates

than loans of moderate amount. In Rangoon the rate for a loan above Rs. 5,000 is not generally fixed absolutely, but is fixed in relation to the "current rate", and the same plan is sometimes followed in the other ports and Mandalay; some loans to land-owners however are still given with fixed rates even there. When fixed in relation to current rate the rate is usually 2 to 5 annas above the current rate, according to the customer's position; taking the average of the current rate in Rangoon as 11 annas 11 pies this gives a rate varying from 10·5 to 12·75 per cent per annum. The rate is higher in the busy season and lower in the slack season; if the average current rates in February and August are taken as 13 annas 9 pies and 8 annas 2 pies respectively the borrowers who pay a 2 anna excess get in those months rates of 11·8 and 7·6 per cent. per annum, while for those who pay 5 annas excess these annual rates are 2·25 higher. Because these rates are more favourable to borrowers than the rates paid to Chettians in the ordinary towns, borrowers who require a large loan often go to Rangoon or one of the other ports or Mandalay to arrange it. For these large loans the same rates are charged whatever the security may be, and even for loans on promissory-notes without security. Apart from these large loans in Rangoon and occasionally in Mandalay and the other ports the rates generally charged are as follows, all being stated as percentages per month. With gold security the rate for loans above Rs. 250 or so is 1·25 to 1·75; with land the range is the same but generally the rate is 0·125 to 0·25 higher than with gold. For loans above Rs. 5,000 secured on land the rates may be from 1·0 to 1·25; but generally speaking the rate for moderate loans is round about 1·25 to 1·50. With house property in a large town or paddy in a godown as security the rate is 1·5 to 2·0 for loans up to Rs. 5,000 and 1·00 to 1·50 above Rs. 5,000; but, since the season when paddy security is generally given is the busy season with higher rates all round, the rate for these loans goes up to 1·75 even for large loans. For loans on promissory notes without collateral security the rates are as follows: 2·0 to 2·5 for loans below Rs. 100; 1·5 to 2·0 for larger loans up to Rs. 500; 1·375 to 1·75 for still larger loans up to Rs. 5,000; over Rs. 5,000 rates are as for secured loans. All statements of rates of interest in this paragraph are subject to the qualification that outside Rangoon a rate less than 1·25 is rare for all kinds of loans of whatever amount.

525. In Rangoon and sometimes in the other ports and in Mandalay, and often in other places for Indian borrowers, these monthly rates are for the months of the European calendar; but generally they are for the Burmese months which have only 28 or 29 days, so that an ordinary year is only about 352 days. One witness in particular has complained of this, and has asked that Chettians should be compelled to charge according to the months of the European calendar. It is however clear that Burmese months are generally the only practicable periods to be used in rural

places ; and it is probable that the use of the longer months would be accompanied by an addition of an anna to the rate, so that there would be no real reduction of interest but rather a slight increase.

526. The rate of interest is partly determined by competition, amongst lenders, as is to be expected and is illustrated by the success of Burman money-lenders in the Taungtha and Natogyi townships of Myingyan district in excluding the Chettiars. This was reported by two of us who in a special survey collected the information which is given in the second volume of this report about financial conditions in Myingyan. When the Chettiars attempted to start business in Natogyi the local Burmese lenders, whose usual rates of interest were and are from Rs. 2-5 to Rs. 3-5, combined in an agreement to reduce the rates, and the Chettiars withdrew. The Chettiars say there is healthy competition amongst the Chettiars themselves with respect to rates of interest, and this is true to some extent. It is also true that when Chettiars first began doing business in any locality the prevailing rates of interest always fell. But it is also true that in many places the Chettiars have (or have had at times in the past) agreements as to the minimum rate to be charged for certain important classes of loans ; where there is no specific agreement there is a customary minimum and an understanding that no local Chettiar will lend for less. Above the minimum competition may be in force, but that depends on local circumstances. Competition is said to be particularly keen in Moulmein.

527. Except for loans exceeding Rs. 5,000 in Rangoon Mandalay and the ports, the rate of interest is always the same throughout the duration of the loan, without fluctuations corresponding to the fluctuations of " current " and *thavanai* rates. In fact the ordinary borrowers are entirely unaware that these rates exist, and consequently never think of getting a reduction of their own interest if these rates fall. Moreover, although the borrower's reputation is a factor in determining the rate of interest he must pay, no reduction of the rate for a current loan is ever made to a borrower in consideration of regular payment. He may threaten to borrow elsewhere to repay the loan ; but in that he incurs the expenses of stamps and registration for a new mortgage, and these expenses are generally a sufficient deterrent. We have not however received any complaints on this head ; and so long as new borrowers who have had no opportunity to prove themselves good borrowers are treated as good or fair average borrowers (as appears to be the case) no serious complaint seems to arise.

528. Not only does the rate of interest upon any particular loan remain constant in spite of variations of the Chettiar " current " and *thavanai* rates, but the rate for a loan seems to be fixed in the first instance by custom and without regard to the level of those rates. The variations of those rates are met in fact by charging a rate corresponding to their average level. If that average level rose there

would presumably be local agreements amongst Chettiers for a higher minimum rate to borrowers. The power of competition to bring down rates to borrowers if the cost of borrowed capital falls is much less clear. Experience gives us no indication, because in the last twenty years current rate has not changed much for any long period, and the rates charged to borrowers are generally said not to have changed during the last twenty years. The rates charged by Chettiers are generally less than those charged by other lenders. But, as we have already pointed out, this corresponds to a selection of borrowers to suit the circumstances of Chettiar business ; other lenders are generally doing business which is more risky or on a smaller scale, and, although in closer contact with borrowers in most cases, have to charge higher rates.

529. Documents.—For every loan, whether secured or not, the borrower is required to execute a document to evidence it. The documents are always brief and simply worded, and invariably make the loan repayable on demand.

530. Charges for Documents.—The borrower is always required to pay all lawyer's fees incurred in connection with his loan as well as stamp-duty and registration-fees. Outside Rangoon, Moulmein and Mandalay he is required also to pay for making a promissory-note, whether it is made in a printed form or written out specially. Generally the charge is four to eight annas in Lower Burma and eight annas or one rupee in Upper Burma, including the cost of the stamp which may be one anna to four annas. No charge of this kind is made for the form of a mortgage-deed.

531. Verification of Accounts.—If a borrower wishes to verify the account of his loan in the Chettiar's books, the document evidencing the loan will be shown to him on request and the account in the books will be translated to him orally. The actual books are not given to him for inspection ; but while such inspection might incommode the Chettiar in his business it would rarely be of service to the customer. The books are kept in Tamil ; and the borrower is rarely a Tamil and still more rarely able to read Tamil and to understand the entries.

532. Complete Repayments.—When a loan is completely repaid the document evidencing it is given back to the borrower, cancellation being indicated by tearing out the King-Emperor's head from the stamp on it. A deed to cancel a mortgage is never made ; a borrower who wanted one would have to demand it somewhat persistently as well as pay the expenses.

533. Partial Repayments.—The Chettiers accept gradual repayment of large loans, but instalments are seldom offered them. Receipts are said by the Nattukkottai Chettiers' Association to be given for such payments if desired. But receipts are not given unless

demand. Outside Rangoon a receipt never is demanded ; a cultivator who demanded a receipt from a rural Chettiar would probably find himself regarded as too cantankerous unless the business done with him were particularly desirable. The usual practice is to let the borrower see the repayment noted on the back of the original document of the loan.

534. Payments between regular interest dates are not taken at once in reduction of the principal money in places outside Rangoon ; they are taken as interest or placed to a suspense account, so that interest on the principal money outstanding since the last interest-date continues to accrue in full. This practice seems not to be followed however in Rangoon ; there the payment is taken as a reduction of the principal money on which interest accrues.

535. When a payment is made and there are several documents of indebtedness, the usual practice is to credit interest on all the documents first unless the borrower specially asks for other treatment. Chettiars in Pakokku told our Chettiar agent that their practice was to clear off the interest and principal of one document completely first. But we believe that the usual treatment is as we have stated, and that a borrower who insisted upon appropriation to a secured debt while he still owed an unsecured debt would generally (unless an unusually good customer) find himself called upon to repay all his loans.

536. Time for Repayment.—Although the document evidencing a loan always shows it to be repayable on demand, there is an understanding or an oral agreement as to the time when repayment will ordinarily be expected. For cultivators there is an understanding that, subject to the special circumstances described below, no repayments will be required except interest after harvest. If the loan is for current expenses repayment of principal as well as payment of interest will be expected ; but generally a loan is not recalled so long as interest-payments are regularly made. Further particulars of loans to agriculturists have been given in Chapters V and VI. For traders and others some oral agreement at the time of repayment is made when consenting to grant the loan.

537. Recall of Loans.—The understanding about loans not being recalled does not extend to times when the Chettiar is in financial difficulty and cannot raise money by sub-mortgaging land mortgaged to him by his clients ; nor does it extend to times when the Chettiar agent is being changed. The borrower takes these risks because he regards them as small and has no alternative. In case of a recall the borrower is exposed to an action unless he is successful in finding some other lender who is ready and willing to finance him ; but

in the circumstances this is sometimes not an easy thing to do, and the terms of such a lender may be extortionate. If a new lender is found the borrower still has the bother and expense of making a new mortgage, with fresh registration and stamp-fees. The Chettians say that only bad loans are recalled on the changing of an agent, and that the two agents consult each other and are not capricious in the recalls. There is also the consideration, which an English banker formerly in Rangoon used to advance, that a thorough examination of the position at each change of agents is salutary and of value to the general public as well as to the proprietors. Some district committees also have reported that no inconvenience is felt through changes of agents.

538. Other Conditions of Loans.—For other matters relating to loans reference should be made to Chapters V to X.

539. Office Arrangements.—Chettians have no fixed hours and do not observe public or official holidays. Except for their own festivals of *Pangani Uthram* (in March or April) and *Thaipusam* (in January), when business may be stopped for about four days in all, they are ready to transact business on any day and at any time. This is often a great convenience to depositors who wish to withdraw money, and also to some borrowers whose circumstances make it desirable for them to conceal from others the fact that they are borrowing. Business is chiefly done however in the day-time. In Rangoon business tends to be concentrated into the ordinary banking hours of 10 till 3, little business being done as a rule after 3 o'clock and practically none before 10 ; on Saturday afternoons too one sometimes finds only one or two of the clerks in a Rangoon Chettian's office.

540. Strong rooms are not kept ; but there is, as already noted, a general practice of living in brick buildings. Some have safes ; others have boxes or almirahs ; the keys are kept only by the agent. Those who have no safes or have insecure houses often put their books and valuables into the care of others better provided. A very few insure against fire and burglary ; most have a durwan, but all rely chiefly upon one or more members of the establishment sleeping in the office. Those who have safes often have as much as one to five thousand rupees cash in hand, those in Rangoon who accept deposits having more ; those without safes place their money on deposit with others and draw as required. The custom in Rangoon of paying spare money into a bank overnight has already been mentioned in paragraph 513.

541. The accounts are kept in Tamil upon a system of single entry which Chettian boys begin to learn at school and learn better afterwards in their apprenticeship. A new set of books is opened for each agent's triennium, the books of the previous triennium being sent to the principal in Madras Presidency and recalled temporarily if required to be produced in evidence.

542. The two principal books are the *kurippu* and the *peredu*. The *kurippu* is a journal in which every transaction of each day is entered in four columns for the serial number of the document, the description of the transaction, cash credited and cash debited. In Rangoon the serial numbers of the documents are generally shown in the first column with English figures. The English and Tamil dates are shown above the entries for each day in Tamil, and Chettians who have many Burmese clients (that is to say nearly all outside Rangoon) show as well the Burmese date, also in Tamil. The *peredu* is a ledger which is in as many volumes as may be convenient for the particular business and has a suitable number of pages allowed for each creditor and each debtor ; accounts for salaries, food, travelling expenses, property and for other impersonal heads are also included in the ledger. The ledger account for a borrower has three cash columns for interest received, credit and debit respectively as well as columns for the serial number of the document concerned and for the date and description of the transaction. As in the *kurippu* the document-number is commonly shown in English. The date is shown in Tamil, but according to the Tamil, English or Burmese calendar by which interest for the particular customer is reckoned. For banks with which the firm has a deposit and for all who have deposits with the firm the ledger accounts have only two cash columns for credit and debit respectively. Some firms have an impersonal account for interest received and carry to it every entry in the journal for interest received from any customer besides, showing that interest in the customer's particular ledger.

543. Subsidiary to the *kurippu* is the *chittai* or rough-book. The *chittai* may be a slate, or a number of rough sheets of paper temporarily pinned together, or an exercise book or a formal book properly bound in leather ; generally it consists of a number of double foolscap sheets sewn together by one of the staff to make a book foolscap size. It is ruled in the same form as the *kurippu*, and in it are entered all transactions of each day for which there are not special vouchers, such as cheques *undials* or hundis. In most businesses the vouchers are sorted out at the close of each day ; all of each kind are entered together in the *kurippu* and then the entries of the *chittai* are grouped together and entered in the same way. In some large businesses with several accountants however the journal is filled during the day as the transactions take place. Some agents preserve the rough book a considerable time and even take it with them to Madras when their agency expires ; others destroy it a few days after its entries have been transferred to the *kurippu* ; most destroy it fairly soon.

544. Various other subsidiary books are kept for convenience, according to the size and kind of business. An example of these is afforded by the *baki* books (or "balance books") which the larger firms

use for running accounts ; in these there is for each account a separate set of pages into which the net credit or debit of each day is carried from the ledger, so that the balance at the end of the previous day is always exhibited. Interest is not calculated from the *baki* book but from the ledgers; accordingly the *razi* (products of days and interest) are not shown in the *baki* book. The interest-received account described in paragraph 542 is generally spoken of also as a *baki* book.

545. For calculating interest a few Chettiars use printed interest-tables, but this is exceptional. The ordinary way is to work out for each case by arithmetic ; but different accountants follow slightly different arithmetical procedures, some using various devices to shorten the work. In the most direct way the daily outstandings are multiplied by the number of days they remain constant and the results summed to give the *razi* (products) which are then divided by three thousand (corresponding to 30 days in a month) and multiplied by the monthly interest of a hundred rupees. For ordinary loans most Chettiars use the same method for broken parts of a month, but for the whole months they calculate separately by multiplying the principal money first by the number of months, then by the number of whole rupees in the monthly interest on Rs. 100, and adding proportionally to the result by the method of "practice" for aliquot parts of a rupee in that rate. Decimals are not used in the calculation except temporarily when dividing by 100 to calculate interest ; the decimal part is then converted to annas and pies. The statement sometimes made that calculations are carried to three places of decimals is thus untrue ; but the calculations are correct to the nearest quarter-anna, and the Chettiars claim they are correct to the nearest twelfth-part of an anna.

546. Every agent prepares a balance-sheet every month for submission to his principals. Copies of the *kuriṭṭu* are also sent to the principals at least every month and in some cases every week. When not in Burina the proprietors in Madras keep themselves further informed of the business by correspondence with the agent. The proprietors generally keep an accountant to audit all the accounts received from the various offices. The practice in some of the firms of inspection tours by the proprietors has already been mentioned ; some of the larger firms have, in addition or in substitution, visits by a paid inspector. A few firms have their accounts audited yearly by auditors with Government diplomas for the benefit of the Income-tax Department ; but the partners do not always accept his statement of the accounts. A complete settlement of accounts amongst the partners and the agent is made at the end of the agent's term.

547. There is a custom of charging a commission called *vallam* when making payment of a cheque or hundi in currency notes. The custom arose because depositors were generally traders who paid in to their accounts with the rupees and small change received from customers in

their shops. To be able to pay depositors with notes the Chettiar had to incur expenses for a conveyance and for the time of his clerk in sending these coins to the Currency Office to exchange for notes. *Vattam* is charged as re-imbursement of these expenses. The charge does not exceed one and a half annas per Rs. 1,000 when notes of Rs. 100 are demanded or one anna per Rs. 1,000 when notes of Rs. 10 are required ; the rate is less for ten-rupee notes because some part of the banker's receipts are in the form of these. No charge is made if payment in coin is accepted ; neither is any charge made to banks and large companies which do not pay in habitually in coins. The charge is in fact a charge for supplying notes in exchange for coins, but its real nature is slightly obscured because the coins are paid in to the account on some occasions and the notes paid out on others. When notes for one rupee and Rs. 2-8-0 were in circulation these were treated as coin for purposes of *vattam* so far as they were available with the Chettiar ; so too are notes of Rs. 5. The custom of charging *vattam* was general until a few years ago ; but it is now going out of fashion in Rangoon because the popularity of ten-rupee notes with the public has diminished the proportion of coins paid in by traders and so made it easy for a Chettiar to keep a sufficient supply of notes. The custom is still generally followed outside Rangoon ; but it is weakening there too and is already disregarded sometimes in the largest towns.

548. Remittances, Discounts and other Business.—

Remittances and the transfer of cash by Chettiars have been treated in the latter part of Chapter III and in Chapter XII. Discounts of hundis and their re-discount with the banks have been discussed in Chapter XI. The trade in gold has been mentioned in paragraphs 443, 513 and 515. Other business seems to require no mention here.

549. Distribution of Profit.—Interest on the *sontha thavanai panam* (" borrowed capital ") is reckoned with six-monthly rests. Any partner may, if he pleases, take his interest on those occasions ; but generally a large part of the interest is left with the business as an addition to the *sontha thavanai panam*. Any money drawn by a partner from the firm apart from this six-monthly interest is treated as a loan, interest being charged against it and a settlement made at the end of each six months. On the expiry of three years from the beginning of the partnership the agent will be changing, and the profit of the whole period is then calculated with the help of the report of the new agent as to the value of the assets and the amount of the liabilities. This profit excludes of course the interest upon the *sontha thavanai panam*. If there is a net profit bonuses are paid to the outgoing agent and to the rest of the establishment, and any balance still remaining is divided amongst the partners in proportion to their subscriptions to the *mudal panam*.

550. **Grievances.**—The Chettians complain that the Imperial Bank of India and the other joint-stock banks do not give them as much or as cheap accommodation as they should. They describe this as unfair competition, saying that the banks, by refusing to give the Chettians overdrafts at less than 2 per cent. above bank-rate, allow the Chettians little room for expansion.

551. A complaint related to the foregoing is that the banks do not recognise the Chettians as their fellow bankers but treat them in the same way as ordinary merchants. Further, in times of difficulty the banks do not give as much support as they should to the Chettians, who say that, although they do not offer Government paper as security, they offer "equally good security" (meaning produce in godowns or title-deeds of land or house property held by them as security for loans to their clients.) Moreover, the Chettians say, there is unfair discrimination here because such advances on the security of goods in godowns are made to firms and companies under European management, while the other joint-stock banks get advances from the Imperial Bank on the security of a letter of hypothecation of goods in upcountry places. The Chettians also complain that the rate of interest charged by the Imperial Bank of India upon advances is too high. The complaint about the difference in the rates of discount at Rangoon and at the Indian offices of the Imperial Bank has already been reported in paragraphs 335 to 339.

552. The Chettians complain also of the amount of the court-fees and process-fees payable in suits to recover their loans, and draw attention to the lower fees of Ceylon and the Straits Settlements. The complaint about the long interval of six months between the preliminary and final decree in a mortgage-suit will be considered in Chapter XVII, where also we shall discuss the question of giving Chettians (and other lenders) the right, which the Chettians have asked for, to include a power of a sale in the terms of the mortgages taken by them. Another request of the Chettians is for the introduction of some plan to shorten the hearing of ordinary suits for the recovery of money on promissory-notes; they have suggested that a more summary procedure should be possible when a respectable financier like a Chettian sues on such a document. In Chapter XVII we shall deal with this point as well as the suggestion that court-fees shall fall due by instalments. Another Chettian suggestion is that adjournments in suits should be diminished. A further request is made for the introduction of the Torrens system of registration of land-titles; our recommendation on this point will be found in paragraphs 751 to 753. The Chettians would also like a reduction of the registration-fees while the present system continues; we agree that these should be reduced if possible, but we see the difficulties of collecting sufficient revenue from other sources; discussion of this subject will be found in paragraphs 763 to 766. They

also ask for licenses to carry arms when going about from one village to another and for special representation in the Legislative Council ; except the Chettiar member amongst us we have no sympathy with these last requests.

553. In connection with income-tax the Chettiars are somewhat bitter. They complain first that the income-tax officers take from the Chettiar books a list of depositors who receive considerable amounts of interest from Chettiars, and then call upon those depositors to submit returns of income so that they can be assessed. Consequently, the Chettiars say, some would-be depositors are frightened off and the Chettiars do not get their deposits. The late Commissioner of Income-tax thought few depositors are affected and that safety of the deposits is the main consideration in their minds. But the Chettiars think the effect is considerable, and we doubt if they would lay so much stress on this point if they had not good reasons for thinking so. They say a person who has never been assessed to income-tax before keeps his money away from Chettiars so as to avoid coming under the notice of the income-tax officers. The complaint raises however a difficult question which is rather outside our scope, as it would amount to the general problem of the measures permitted to income-tax officers to obtain information as to income liable to tax.

554. Further there is a complaint that the income-tax officers often keep the Chettiar account-books for months together, thus causing great inconvenience and obstructing the business ; it is even alleged that the growth of the business is hampered in this way. The natural way of dealing with this would be by instructions from the Commissioner of Income-tax to his officers to return the books promptly, the instructions being made effective by requiring a register to be kept to show when each book of each firm was received and when given back. The Commissioner could compare the periods in various offices and effect an improvement in the bad ones. Allowance will have to be made for the time required to elucidate obscurities in the accounts ; but this too could be brought under control.

555. Another complaint is that the notice of demand for income-tax is sent at inconvenient times. Enquiry at the income-tax office has shown us that the Tamil examiners of the Chettiar accounts go round from July onwards and aim at getting all the assessments made and tax collected by the 31st March. Consequently there are in every month some Chettiars who are being assessed at that time. We think it should not be difficult to arrange for all the tax of rural Chettiars to be paid, possibly in two or more instalments, in the season when Chettiars are collecting their dues. It seems obviously improper to collect taxes in November to January when loans are at their maximum ; the Chettiars, it is true, are expected to pay from the profit of the previous year, but the payment in this season causes a needless contraction of credit. - It

may even be proper to postpone part of the payment until April. In Rangoon we believe the tax would be paid most easily in June to October ; the work of the examiners could therefore be arranged without great difficulty to carry out this suggestion.

556. The chief complaint is that the income-tax officers make arbitrary and exaggerated assessments. Yamèthin district committee, for example, has reported that the number of firms at Pyinmana has been reduced in the last few years from 35 to 8 because of unfair assessments to income-tax. The complaint however is not confined to a few instances like this but is made everywhere, and it is further said that the decisions given on appeal or revision inspire little confidence. There are also complaints of more specific grievances related to this. For instance the income-tax officers are said to base their estimates upon book-profits which in many cases are not realised ; in support of this the Chettians say that the investigation of the affairs of some of the Chettiar firms which have recently failed has shown that they have not realised the book-profits on which they were assessed. The Chettians in Pegu say that remittances from their businesses in other countries are treated as income. The same Chettians also say that the income-tax officers refuse to allow for bad debts unless the documents relating to them are torn up or cancelled ; and that after that the Chettians are unable to realise anything even if the circumstances of a debt improve. Various Chettians have alleged that losses are not allowed for, and some have complained that deposits with them of money belonging to Chettiar women are treated as their own capital so that the interest paid on them cannot be treated as an expense of the business.* Until 1928-29 the income-tax officers used to refuse to recognise the bonuses of the agents and the other members of a Chettiar office as an expense of the business to be deducted before determining the assessable profit ; but in last year's assessments they allowed this to be done.

557. Finally there is a general complaint that the Chettiar accounts are treated by the income-tax officers with undue suspicion. The late Commissioner of Income-tax thought the trouble was that the Chettians do not exhibit the true state of their affairs.

558. Some remedies have been suggested. From Akyab comes a suggestion that first appeals against assessments should be heard by persons independent of the Income-tax Department. The Nattukkottai Chettians' Association suggests that the Income-tax Department should give certificates of approval to suitable auditors and should accept accounts passed by such auditors. We think the evil is deep-seated in mutual suspicion and distrust between the income-tax officers and the Chettians, and that no measures will succeed so long as this is not allayed.

* There are also claims that proprietors' expenses and religious expenses should be allowed as expenses of the business.

We do not accept the common statement that income-tax assessments are bound to be unpopular. We agree that everyone would be pleased if taxes could be dispensed with all round, but we think it should be possible to fix the rate of tax and conduct the assessments so that the public (including the assessee) will recognise that assessee is making to the revenue of the country such contributions as are fair when considered in conjunction with the other sources of revenue. This involves the wide question of the relative amounts of revenue to be derived from income-tax and from other sources. But clearly the first step is to get recognition that the income-tax assessee is treated equitably in relation to each other ; otherwise the whole study of the matter rests upon a quagmire. It is clear that the assessments of the Chettians in Burma are generally regarded by the Chettians as quite arbitrary amounts and not as the results of careful calculation. The Income-tax Department is regarded as extorting money from Chettian assessee rather than adjusting the incidence of the tax equitably. The Chettians do not ask if the assessment is correct, but whether the greed of the department has been such that an appeal is worth while. On the other hand the income-tax officers seem to have no faith in the accounts put before them by the Chettians. There are special difficulties in the language, in the accounting-system of the Chettians, in the three-yearly system of their agencies, and in the character of their businesses as branches with headquarters outside the country. There is also the difficulty due to bad assessments before the present Income-tax Department came into being. These difficulties in fact are big enough for any department to meet ; and if mutual mistrust between the department and the assessee is added to them, with all the devices which, while such mistrust exists, are bound to be invented by both sides and to add to the mistrust, they must be insuperable. The obvious remedy for the mistrust is a conference between the Nattukottai Chettians' Association and an officer representing the Income-tax Department to work out a practicable scheme for making Chettian assessments fairly. Possibly an arrangement for provisional assessments for two years with a settlement in the third year when an agency expires would be useful if suitable arrangements as to bad debts taken over by the new agent were made. We think it probable that a special Assistant Commissioner of Income-tax of considerable experience is needed to assist the Commissioner in dealing with Chettians, and that while submitting to the general control of the Commissioner as to policy he should have the powers and standing of the Commissioner in dealing with specific cases. The officer designated to hold this post first should be deputed for the conference suggested above and should begin by completing the study of the whole Chettian system which we have begun. If the political separation of Burma from India is effected, that study will be of even greater importance because of the problem of the relative claims of Madras and Burma to the yield of the tax.

Extracts relating to Nattukkottai Chettis from Jain's "Indigenous Banking in India."†*

-They have a reputation throughout the land for their spirit of adventure and enterprise, for their natural shrewdness and ability and for their acts of munificence.

Of the *Nattukottai Chettis*, it may be said without exaggeration that they are the most charitable class in Southern India, well-known for liberally endowing temples and spending on religious ceremonies. They especially worship Siva and spend large sums of money in the construction of new, and the repair of old, Siva temples in the belief that Siva gives them wealth.

This to a student of Indian economics may not appear as a well-directed channel of charity, but apart from the provision for temples and ceremonies, the establishment of Choultries (rest-houses), poor houses, Vedic and Sastric *Pathshalas* or schools is also, as Thurston testifies, due in many cases to their generosity. The Albert-Victoria Hospital in Madura is supported mainly by annual subscriptions from the *Nattukottai Chettis*.

They have the remarkable custom that the married members of a family do not take their meals together. All live in the same house, but they cook and eat their food separately. So strict are the *Chettis* in the observance of this rule that not even a widowed mother can dine with her married son or daughter. The rule, however, does not apply to the unmarried members of the family, who live with their parents till such time as they are married. With the *Nattukottai Chettis* marriage is not only a religious duty and a social function, but is also an occasion for economic independence and liberty. Rice and other necessities are distributed usually once a year to the several semi-independent members of the household. This custom explains the existence of the huge houses in which the members of a *Nattukottai* family usually live all together. It also shows how business-like and economical these *Chettis* are, even in their family arrangements and in their daily life, as compared with other banking castes, for example, the *Vaishyas*. In the case of the latter, the married members of the family, as a rule, not only live together, but also cook in common. This is especially the case when the married members are not themselves earning, but depend upon one or two members of the family who do earn. With the *Chettis* every married member is supposed to live on his own; with the *Vaishyas* all the married members live a common life, all benefiting in the gain and suffering in the loss that befalls to any individual members. The manifest result is that the *Chettis* are independent and self-reliant, the *Vaishyas* dependent upon one another. But the members of both castes possess in common a natural aptness for distinguishing themselves in business.

Of all the indigenous bankers the *Nattukottai Chettis* are the most perfectly organised. Thurston observes that 'the *Nattukottai Chettis*, in organisation, co-operation and business methods are as remarkable as the European merchants. Very few of them have yet received any English education. They regard education as at present given in public schools as worse than useless for professional men, as it makes men theoretical, and scarcely helps in practice. The simple but strict training which they give their boys, the long and tedious apprenticeship which

* See paragraph 433.

† Published at 15 shillings in 1929 by Macmillan. Quotations are from pages 30 to 32 and 36 to 38.

even the sons of the richest among them have to undergo, make them very efficient in their profession and methodical in whatever they undertake to do.* A *Nattukottai Chelli* is a born banker. From his earliest childhood he is brought up on the family traditions of thrift and economy. When a male child is born in a *Nattukottai Chelli's* family, a certain sum is usually set aside to accumulate at compound interest and form a fund for the boy's education. As soon as he is ten or twelve, he begins to equip himself for the ancestral profession. He not only learns accounting and the theory of banking, but he has to apply his knowledge practically as an apprentice in his father's office. Thus, in a *Chelli's* training, the theory and practice of banking are not divorced from each other, but go hand in hand, from the very start. When a boy is married he attains a responsible position in the family. Though, being a member of the joint Hindu family system, he may not make a separate home, yet he must bear his own financial burden. He is allotted a share in the paternal, or ancestral, estate and he must live on it. He alone enjoys all that he may earn and suffers for all that he may lose. So he naturally grows self-reliant and ambitious, with a keen desire to build a fortune for himself. So great is this craving for making money that even the ladies among the *Nattukottai Chellis* work hard and earn money in various ways, by making baskets, for example, or by spinning thread. Strict economy is scrupulously practised, and every little sum saved is invested at the highest rate of interest possible. It is a common saying with the *Chellis* that if a rupee is lent at 12 per cent compound interest at the birth of a child, it will amount to a lakh of rupees, when he or she attains the age of a hundred. So particular are the *Chellis* where money is concerned that, according to the stories current about them, if they have a visitor—even a relative—staying with them longer than a day, he is quietly presented with a bill for his board at the end of the visit.

The *Nattukottai Chellis* have their business headquarters in the Tiruppattur and Devakottai Divisions of the Sivaganga and Ramnad *zamindaris* in the Madura District. Those of them who are not rich enough to trade on their own account act as agents or assistants to the members of their own community. They are often given large sums of money, perhaps as much as a lakh of rupees, and the only security taken is an unstamped receipt on a piece of palmyra leaf. But this informal method is now being given up and paper receipts are required. The pay of the agent varies according to the distance from the head office of the place to which he is sent. For instance, a man who goes to Madura will receive Rs. 100, while another who is posted in Burma will be earning Rs. 300 per mensem and so on. Generally the agent's term of office is three years. Before he completes it, a new agent is sent to learn the work under him for six months. On the expiry of three years' service, he returns to give an account of his stewardship and to enjoy the company of his wife, who seldom accompanies her husband abroad. He has to offer his services, in the first instance, to his last employer, but, if the latter does not need them, he is free to work anywhere he likes. Usually he is given a share in the profit in addition to his pay, provided he displays energy and industry. In time he accumulates some capital and starts his own business, employing others as his agents. The *Nattukottai Chellis* have extensive business connections not only in India and Burma, but also in the Straits Settlements and Ceylon, Saigon, Mauritius and South Africa; some of them have correspondents even in London and on the Continent.

* *Castes and Tribes of Southern India*, by E. Thurston, Madras, 1909, Vol. V. page 252.

CHAPTER XIV.—OTHER INDIGENOUS FINANCIERS.

559. Apart from the Chettiars, Marwaris, Multanis and Gujeratis described in Chapters XIII A and XIII B the indigenous financiers of Burma only lend money and do no other banking business. They are of many kinds. Of indigenous races most outside the Shan States are Burmese ; but Karens also lend to Karens and sometimes to Burmans. In all the towns there are Indians lending to all classes ; every sort of Indian that is found in Burma is amongst them, including Gurkhas in Maymyo and the north. In the last twenty or thirty years Chinese lenders have appeared practically all over the country, in towns and in villages, and now lend a considerable total, either as ordinary moneylenders or as pawnbrokers. Nearly all the pawnbroking is done by Chinese ; and the number and business of pawnbrokers has increased rapidly in the last twenty years, and particularly so in the last eight or ten.*

560. Credit is also given everywhere of course by the sale of food and other household goods on credit. In the towns a large proportion of household goods are bought on credit by nearly every class that receives its income monthly, which is to say every class taking salary or wages and not paid daily for casual labour. In rural areas this credit is chiefly given by a Chinese shopkeeper who is often also a moneylender. Poor Indians in Rangoon often buy on credit from itinerant Kambhis who collect payment when making their next round. They are uncanny in tracing their debtors and securing payment. They never resort to the courts ; that would not suit an itinerant merchant. They use instead threats of physical violence, and for this reason do not work singly but always in twos or threes. The number of these is not large, and many classes are unaware of their existence.

561. There is no sort of system or organisation of any kind amongst moneylenders ; they are simply an inchoate body of people spread all over the country. Most of the village lenders are doing business the Chettiars do not want ; either it is too small, or it is too risky for a lender who is not in daily contact with the borrower. Much of the lending in fact is done by people in villages with a very small capital, perhaps only fifty rupees, trying to make the most out of it. Some are even men or women who work as agricultural labourers for a daily wage or carry on some retail trade on a petty scale. More are successful traders or landlords of agricultural land. Few if any goldsmiths are included ; these are usually artisans without capital. Many widows are included who have got a little money as a share in the husband's estate when

* For further notes on pawnbroking see the next chapter.

that has been divided according to the Buddhist laws of inheritance, or having families to support have sold land to earn more by lending than they could get from tenants. There are a few Burmese lenders with considerable capital here and there, and two who have recently died had a capital of at least five to ten lakhs of rupees and carried on their moneylending on much the same lines as the Chettiars. But they have stood alone in their towns without the support of an organisation like that of the Chettiars, and so have been confined to lending. There are many people of intermediate capital who own land and lend to their own tenants and to others. Often they are paddy-dealers in the marketing season, borrowing some money for this and using some capital of their own; in the cultivating season they use their own capital for loans to cultivators until it is required for the paddy-dealing again. Many of the lenders, both those with large and those with small capital, borrow further money from the Chettiars and so act as retailers of money to the poorer borrowers. It is noticeable that Mussalman lenders do not often scruple to receive interest in Burma.

562. The following account of village moneylenders is taken from a note upon economic conditions in Burma prepared by Mr. E. G. Pattie, I.C.S., for the Royal Commission on Agriculture; it is important however to bear in mind when reading it that while Chinese lenders are always, and Indian lenders generally, males, the Burmese lenders include a large number of women. When the lender is a Burman man indeed the direction of the business is generally done by his wife; sometimes she appears openly as the principal partner.

“The moneylender is an individual who by inheritance, industry, trade, thrift or luck has a surplus of capital large or small. No more detailed definition is possible. He may be and usually is of indigenous race, but Chinese and men from every province of India are among his number. He forms no separate class in the community. He may be an advocate or a shop-keeper, a landowner or a dealer in produce, a retired government servant or a person of no fixed occupation. He may live in a village and dole out ten or twenty rupees or a little rice to his neighbours and enjoy a standard of living little different from theirs; or may live in a town and be in a position to consume luxuries and to supplement his own considerable surplus with borrowings from the Chettiars. His profits are not necessarily received in cash. Even where he does not stipulate for payment in kind he may accept in settlement a cow or a cart or a piece of land. Sometimes his object is to secure land in ultimate settlement and to this end he gradually entangles his debtor. On the other hand, the desire for profit may not be the dominating motive for lending. Many a landowner would probably be content to receive his rents without the trouble of financing his tenants. But if he does not finance them they may not have a crop to harvest and he will lose his rent. Patronage supplies another motive. A man with many clients need never be at a loss for physical protection or social or political support. The rates of interest charged vary and are always high. But the effective rate

of realized interest is impossible to ascertain. For the moneylender has this in common with his debtors, that he has no system of accounts and usually keeps no regular and complete record of his transactions."

563. There have been many rather pointless discussions of the relative harshness and rapacity displayed by various classes of lenders. The discussions are pointless because the circumstances under which the various classes lend are different. The Chettiar is undoubtedly the lender who does least goading of his borrowers ; but that is because he has a selected set of borrowers. The more risky loans which require constant watchfulness and afterwards considerable pressure to get payment are left to the village lenders, who thus must be strict if they are to lend at all. Some Indians and many Burmans lend to agriculturists in the hope of getting possession of their land sooner or later ; but a bad name cannot be given to any class on this account. The Chinese are generally said to be the most insistent upon getting every anna due to them ; this is probably a manifestation of the thoroughness of the Chinese character.

564. The villages of Burma differ from those of many parts of India by lacking the close organisation that is associated with the relationship of occupation to caste. There is no thought of a community in the sense in which we understand the community of an Indian village. There is not a complete economic organisation in any ordinary village ; generally a village is entirely engaged in agriculture and kindred pursuits. The artisans are found in local centres which may be large villages or small towns, generally at the junction of some lines of communication or on the railway or a river. The moneylender in Burma is not, like the potter the washerman the barber and the village moneylender in an Indian village, one organ of a compact social system whose function is to supply the village with money as the potter supplies it with pots and to take as remuneration such share of the village income as has been adjusted by long history, reducing his claims in bad years when that income is small. In no sense is it true, as has been (rightly or wrongly) asserted of India, that the village moneylender's finance has been the most important factor in binding the community together, more important than land religion or family ties and associations. Ancestral association of a borrower with land or houses does not prevent a moneylender from enforcing his security. In India, it has been pointed out, the village moneylender is generally a stranger in each village but is a member of a body spread over a wide stretch of country. These qualities are really complimentary, and in Burma they are possessed by the Chettiers who do by far the greater part of the lending ; to this extent the conditions in Burma resemble those in India. On the other hand, most lenders, especially in Upper Burma, are villagers of the same community as the borrowers, sharing in the village life on much the same terms.

But for these too the basis of the moneylending is strictly contractual, except where modified by close blood-relationship ; generally whatever has been agreed upon must be paid for the loan.

565. Whatever is done to improve credit facilities there will always be some moneylenders granting loans which ought not to be given at all or are of a speculative nature. But the provision of proper credit facilities will probably bring the greater part of the ordinary petty moneylending of the present day to an end. There need be no regrets about that. For many years the Chettiar and other reasonable and systematic lenders will be indispensable as intermediaries between the large banks and the small rural borrower, and we think the plan we suggest in Chapter XIX provides for them accordingly.

566. In the next chapter we shall deal with pawnbrokers, while our proposals with respect to the licensing of other moneylenders will be given in paragraphs 704 to 708 of Chapter XVII.

CHAPTER XV.—PAWNBROKING.

567. Pawnshops in Burma work under licenses, generally sold by auction, and all are managed by Chinamen except a few in Burman* hands in certain towns. The licensees are often representatives of a

Receivers of license fees.	License-fees (thousands of rupees).			
	1925-26.	1926-27.	1927-28.	1928-29.
	Rs.	Rs.	Rs.	Rs.
Corporation of Rangoon.	445	410	381	284
Other Municipalities.	338	396	486	528
District Councils	213	262	282	280
Total (except 19 notified areas).	996	1,074	1,149	1,092

syndicate of Chinese capitalists who employ a paid manager in the shop and in some cases have shops in two or three towns. The marginal table shows that the pawnbroking business in Burma is now considerable. The variations in the Rangoon license-fees

are due to the circumstances which cause variations in all fees fixed by auctions at which only Chinamen are bidders. In other municipalities there has been a rapid increase amounting to 56 per cent in four years and 85 per cent in five years. In other areas the slight setback in 1928-29 is due to Magwe Division where there was an increase of over 600 per cent in three years 1925 to 1928 and possibly this was excessive. For some three-year licenses the proportion collected in the first year is more than one-third of the three years' fee ; but this is not enough to disturb the comparison of the figures seriously.

568. The licensee often has a small working capital of Rs. 1,000 to Rs. 10,000 in the smaller places, but this rises to Rs. 50,000 in places not very big and is much larger still in the big towns. In some cases this working capital is all owned by the licensee (or the syndicate) ; but as a rule part is borrowed from Chettians. The borrowed part varies generally from 30 to 75 per cent of the whole. Interest is generally from Rs. 1'25 to 1'50 per cent per mensem, according to the general level of money rates, whether security beyond a simple on-demand promissory note is given or not ; long established pawnbrokers often give no security, but others give land or jewellery, including forfeited pledges. Sometimes the rate of interest is as high as Rs. 2 or Rs. 2'5. Although Chettians are very ready to make advances to pawnbrokers, even on

* This is according to reports of Deputy Commissioners ; probably the Burman pawnbrokers have generally some Chinese ancestors. This predominance of Chinese pawnbrokers lends interest in Burma to the statements in the *Encyclopedia Britannica* that pawnshops existed in China 3000 years ago and that in 1911 they were charging only 3 per cent. interest per annum.

simple promissory note, they never themselves act as pawnbrokers. Unexpired pledges are never given by the pawnbroker as security for his borrowings.

569. Observation of the pledges being made at a pawnbroker's shop in a large town which is a district headquarters in Lower Burma showed that in a total of 84 pledges 57 were clothing (including one umbrella),

Rupees.	Number.
0·75 to 1·5 ...	24
2 to 3 ...	14
3·5 to 4·5 ...	10
5 to 6 ...	11
7 to 9 ...	8
10 ...	8
12 to 13 ...	3
20 ...	1
Total ...	79

22 were jewels (including one watch, twelve rings) and 5 were odd pieces of gold. The number of loans taken was 79, some loans having two articles pledged; the distribution of the loans was as shown in the margin, the smallest loan given being twelve annas. The amount lent on any pledge appears to be about 70 per cent of its new value less allowance for wear and tear, for gold pledges the advance is about 75 per cent. of the value. Business

is briskest from 7 to 8 a.m. and 3 to 4 p.m.; the busy season is October to December and the slack season is January, February. There seemed in an examination of the past records to be no difference on particular days of the week or on particular dates of either the English or the Burmese months; and this was confirmed by the pawnbroker's own impressions. The period fixed for redemption is five months in every case, and sometimes is printed on the pawnticket; redemption is allowed at any time before expiry of that period. Renewals are allowed if interest is paid; if there is neither renewal nor redemption the pledge in practice is forfeited. Ninety per cent of pledges are said to be redeemed sooner or later. Time-expired pledges are not sold by auction as a rule but are disposed of by retail sale or (especially in the case of clothing) by sales in job lots to dealers who retail them. The licensees generally insure against fire under a floating policy, because in case of loss of the articles pledged they could not hope to recover the money advanced on them.

570. In municipalities and "notified areas" the licenses are issued under bylaws made under section 142 (c) of the Burma Municipal Act, 1898. The licenses are generally sold by public auction, but sometimes tenders are called for. In some towns licenses are given for one year only, but this system yields small license-fees because the licensee has to incur considerable expense for almirahs and other furnishings as well as arrange to have the use of a suitable building; accordingly many towns issue three-year licenses with a right of the licensee to surrender at the end of any year. Some towns have two or more pawnshops under separate licenses; some have one license to cover all pawnshops in the town; in others again separate licenses for the several pawnshops are issued separately but are in fact held by the same licensee.

571. For areas outside municipalities there are two sets of rules ; one set is under the Burma Towns Act and relates to certain towns, the other set is under the Burma Village Act and covers all areas outside those towns and the municipalities and notified areas, but only applies to such towns and villages in those areas as the Deputy Commissioner may direct. Pawnshops in other villages or towns in those areas are not controlled ; but in these few, if any, of importance exist. The licenses are generally issued by the Deputy Commissioner although the proceeds are credited to the district council ; they are for one year or three as in municipalities.

572. The rules under the Burma Towns Act and the rules under the Burma Village Act differ only in unimportant matters which can be ignored here. The bylaws of the various municipalities vary slightly and are generally less satisfactory than those rules, having been made before them. Their general intention however is the same ; in drafting the rules the matter common to all the bylaws furnished a basis which was improved as far as could be managed.

573. Both the rules and the bylaws seem to have serious defects. In the first place none of the acts under which they are made define the pawnshops in respect of which the power to make rules or bylaws is given. A definition of " pawnbroker " is given in the rules and bylaws themselves. In the rules the definition is as follows : —

" Pawnbroker " means every person who carries on the business of taking goods and chattels in pawn for loans of money not exceeding Rs. 200 in any one transaction : provided that nothing in these rules shall apply to persons taking goods and chattels in pawn for loans exceeding Rs. 100, when the rate of interest or other profit does not exceed 15 per cent per annum, nor shall they apply to persons genuinely carrying on the business of moneylender and advancing money on a promissory note or other document.

According to this any professional moneylender can carry on a pawnbroking business without regard to the rules. On the other hand in some municipalities, whose definition follows this in part but does not except the moneylenders, every moneylender who accepts gold ornaments as security is technically a pawnbroker transgressing the bylaws, however small his business. Such a definition is an absurdity.

574. Moreover both the rules and the bylaws seems to be *ultra vires* because of their disregard for sections 176 and 177 of the Indian Contract Act in giving the pawnbroker by implication the right to sell the pledge without notice to the pawnor if default is made in payment on the date agreed upon for redemption. The rules under the Village Act require the pawnbroker to keep a register of sales and to show in one column the overplus due to the pawnor from the money realised ; but they do not require him to pay the overplus to the pawnor. The municipal bylaws generally ignore the surplus altogether. In practice the pledged article is treated as forfeited. The entry in the pawnticket

of a "date agreed upon for redemption" appears to be a fiction in most places, because the matter is not even mentioned to the pawnor; there seems to be a prevailing idea that five months is the proper period for a pledge, and, as noted in paragraph 569, this period is always adopted.

575. Under the rules and all the bylaws the same maximum rates of interest are fixed, and in practice the maximum rates are always charged. The rate per rupee per month for loans up to Rs. 5 is one anna; for larger loans up to Rs. 20 it is nine pies and for loans above Rs. 20 it is six pies. A part of a month is treated as a whole month. Thus the rate for loans above Rs. 20 is Rs. 3-2 per Rs. 100 for each month or part of a month. The rules do not specify whether English or Burmese months are to be used. Under the Burma General Clauses Act therefore English months should be used; but, as these are not familiar to the mass of the population, it would be more practical to specify Burmese months in the rules, and one may take for granted that, outside Rangoon, Burmese months are generally used in fact. We have verified that Burmese months are used in several places.

576. The real rate of interest is increased above the maximum permitted, because there is a universal custom of deducting one anna from the loan to pay for the pawnticket. Outside municipalities and notified areas this is contrary to the rules which say that no profit shall be demanded in excess of interest at the maximum rates described above. The same provision exists in most municipal bylaws. We have been told that some bylaws permit the charge of one anna; but we have found in some cases this comes of a misunderstanding of a provision that an anna may be charged when a pawnticket has been lost and a duplicate is issued; we suspect that the same explanation applies in all other cases too. The licensees say they are not taking an extra profit, but are charging the cost of stationery. As pawntickets cost them only Rs. 6 per 10,000 this explanation is insufficient. There can be no doubt that the higher rate of interest for small loans was fixed in consideration of the overhead expenses, of which the provision of pawntickets was one, but it would have been wiser to recognise that a writing-fee was sure to be charged, and to have authorised it in the rules as there is no easy effective way of stopping it.

577. We think that some reforms are necessary in the pawnshop business of the country, and that a Pawnbrokers Act should be passed to apply to all pawnshops in Burma.

578. The first point in the Act would be a definition of "pawnbroker" and we suggest (1) that a pawnbroker should be defined as a person licensed under the act to lend money on pledges, and (2) that the act should authorise a pawnbroker so licensed, in case the pledge is not redeemed within a time specified (a) subject to the rules under the act, to sell it without notice to the pawnor and (b) to apply the proceeds of the sale towards repayment of the loan and

payment of the expenses. The provisions of sections 176 and 177 of the Indian Contract Act would be specially ruled out so far as they would obstruct these provisions ; but the pawnbroker would retain a right to sue the borrower in case of a deficit on realization of the pledge. This privilege, and that of forfeiting small pledges as suggested later, would distinguish a licensed pawnbroker from any other person taking a pledge as security for a loan. A charge of one-anna for the pawnticket should be authorised ; half an anna is really enough, but it would probably be useless to prescribe it now that the charge of one-anna has become customary—the provision would always be evaded ; we should prefer half an anna if the charge could be limited to this in practice. The rate in England is a half-penny, approximately equal to half an anna ; and it is said that for small loans the pawnbrokers often forego this charge. Interest-rates and the periods allowed for redemption should be fixed by rules under the act so as to preserve to municipalities in a convenient way the rights in these respects which they have now. Pledges for Rs. 10 or less should be forfeited to the pawnbroker if not redeemed or renewed within the maximum period allowed for their redemption ; but for loans above ten rupees the pawnbroker should be required to account to the pawnor for the proceeds of sale, and suitable provisions (which might be based upon those of the English Pawnbrokers Act of 1872) should be made to protect the pawnor's interests. The period within which a borrower may claim money due to him as excess of the sale-proceeds above what is due to the pawnbroker might be one year. The pawning of another person's property without his consent and the taking in pawn of any article from any person who is under the age of 14 or is intoxicated should be made offences. Auctions of unredeemed pledges should take place only on one or more specified days in the month and no sales should take place between July and October, when agriculturists are unable to go and redeem their goods or renew the deposit of them. Regulations for inspection and search by the police and for informing the police before selling any pledge, and various other miscellaneous provisions of the present rules under the Village Act would also be embodied either in the act or in the rules under it.

579. We are not in favour of the plan of appointing to each shop a guarantor who, for a commission upon loans, would determine the maximum advance for each pledge and would pay any deficit in case the pledge had to be realized. In Paris, where this plan is in vogue, experience has shown that it is apt to load the scale too heavily against the borrower.

580. The outline we have given for a Pawnbrokers Act includes no mention of the rate of interest to be charged. Neither does it indicate how the period of loans would be fixed. As it may be desirable to have different rates or periods in different places we leave those to be

fixed by rules. Within municipalities and notified areas the rules could either continue to be made under the Burma Municipal Act or be made in the same way under the Pawnbrokers Act ; that is a technicality of drafting the act. For other areas the rules should be made by Government under the Pawnbrokers Act as it already exercises this power under the Burma Village Act and the Burma Towns Act. We shall now give our attention principally to areas outside municipalities and notified areas.

581. We suggest that the period of redemption outside municipalities and notified areas should not be left for special contract by the pawnbroker and his customer. In present practice no contract is made ; the period of five months is understood in every case and is not discussed at the time of pawning. We recommend fixing five months as the period for all loans of Rs. 20 or under and nine months for all larger loans.

582. The least rate of interest charged in Burma at present is, as pointed out above, Rs. 3-2-0 per Rs. 100 per mensem. For loans between Rs. 5 and Rs. 20 the rate is Rs. 4-11-0 and for loans under Rs. 5 it is Rs. 6-4-0. If the pledge is held for an incomplete part of a month, the rate calculated according to the number of days may be much higher in every case. The ordinary rate for considerable loans by Chettians on gold security is Rs. 1'25 to Rs. 1'75 ; but as pledges of gold are given at the pawnshop where there is the further disadvantage of a time-limit for the pledges, it is evident that these Chettian rates are not available for such small loans. In fact the pawnbrokers are themselves paying these rates for 30 to 75 per cent. of their working capital, and could not lend more cheaply than they borrow. Even in England the rates vary, as we have shown, from Rs. 2'5 to Rs. 3. The rates in the state pawnshops of Java have a special interest and are shown in the table hereby.

Loan (Rs.).	Rate of interest.	Period.
30 or less ...	2 per cent. for 15 days or part of 15 days.	135 days.
30 to 60 ...	5 per cent.	6 months.
60 to 90 ...	4 per cent.	9 months.
90 to 120 ...	3 per cent.	12 months.
Over 120 ...	1 per cent.	12 months.

(The numbers of rupees shown are approximations to the number of guilders in the Java regulations.)

The period in the third column is the maximum period for which interest is calculated. On the expiry of that period an extension by two months free of interest is allowed,* and after that the pledge is liable to be sold.

* There is a difficulty in translation of our information from Java on this free period ; the above seems to be what is intended to be said.

Thus a pledge for less than Rs. 30 would pay 18 per cent for 135 days but then get two months free, bringing down the average to $2\frac{3}{4}$ per cent per mensem. No additional charges for pawnticket or any other purpose are made. The principal advantage to the pawnor in the Java rates seems to be in the calculation of interest according to the number of days for larger loans and by the half-month for small loans ; apart from this matter it is only when the loan exceeds Rs. 90 that the monthly rate is less than in Burma *. Moreover the rates charged in Europe work out very high in the case of small loans for short periods. In England, for instance half-a-crown taken from Tuesday to Saturday bears a rate of 300 per cent per annum ; and this comes to 450 per cent if the cost of the ticket is reckoned in. In fact pawnbrokers' loans are nearly everywhere either expensive in interest or burdened with other disadvantages. Nevertheless we think the present Burma rates are oppressive for small loans taken for short periods and that the scale of interest charges should be revised.

583. For areas outside municipalities and notified areas we accordingly propose that Government should adopt maximum charges for interest expressed as suggested in paragraph 585 but reckoned in terms of pies per rupee per Burmese month, and that for loans up to and including Rs. 10 the rate should be 10 pies, for loans above Rs. 10 up to and including Rs. 20 the rate should be 8 pies, and for loans above Rs. 20 the rate should be reckoned at 6 pies as now. A period from any date of pawning to the date of the same number in a later month should be reckoned as the proper number of whole months. A simple convention, following present practice, can be made to meet the difficulty of some Burmese months having, and some not having, a fifteenth waxing. For a period not exceeding 15 days, whether in addition to whole months or not, half the monthly rate should be charged. It will be observed that for loans below Rs. 5 the present rate would thus be diminished by 2 pies, while for loans over Rs. 5 up to Rs. 10 the rate would be increased by one pie and for loans of Rs. 10 to Rs. 20 the rate would be decreased by one pie. There is justification of the decrease of the rate for the small loans under Rs. 5 in the charge for the pawnticket, which makes a considerable proportional addition to the charge made for the small loans taken as a rule by the poorest borrowers. But the main advantage is the provision of convenient terminal amounts which can be used uniformly to grade not only the rates of interest but the maximum period for redemption and the disposal of the proceeds of unredeemed pledges.

584. The license-fees should not be seriously affected by the proposed changes. The bulk of the loans are below Rs. 10. The amount of money in loans of five rupees and less is said to be about half that in

* Recently, in conversation with Mr. Darling of the Punjab, our Chairman gathered that the ordinary rates of interest in Java for crop-loans and the like are as high as in Burma.

loans of five to ten rupees; if that is so the proposed rates would yield much the same income as the current rates. Loans from ten to twenty rupees are few. The reckoning by Burmese months will give slightly more interest on an average than reckoning at the same monthly rates by English months.

585. The most serious objection to the proposed rates is the greater complexity of calculations than with the present rates, which ought indeed to have been notified in terms of two or three pice or quarter-anna and one anna. But we think the rates should actually be notified in the form of a table showing the rates by half months for loans up to Rs. 20, and a monthly rate should be prescribed only for loans above Rs 20. The table could go by steps of eight annas and half-months and show interest correct to the nearest quarter-anna. The license should include the table and require a copy of it to be exhibited in clear print of at least a certain size in a place in the shop readily accessible to every customer.

586. Another objection may be found in the difference of rates inside and outside municipalities and notified areas. We hope the committees of these areas will be ready to adopt the revised rates.

587. The proposals of the committee, so far as they are made unanimously, stop at this point. But further proposals are made by two members of the committee (Mr. Dawson and the Chairman) immediately below. The four Burmese members* disapprove of these further proposals on the ground that the compensation proposed to be given to local authorities on account of the loss of their present pawnshop revenue would in practice be insufficient.

Supplementary Report by Messrs. Dawson and Grantham.

(1) We agree with our colleagues that the Pawnbrokers Act proposed above is essential as an immediate provision for the proper working of the present system. But that is not enough. We think the rates of interest in Burma should be reduced. It has been shown above that high rates of interest are charged in other countries; that makes one disposed to acquiesce in the present rates even if not modified as proposed above. But on the other hand the high fees paid for licenses in the larger towns show that there is large profit by the Burma rates in spite of the overhead expenses of the pawnbrokers. Some licenses in the smaller places are sold for as little as Rs. 25; but that is probably due to lack of competition. Anticipating the matter of Chapter XIX of this report we point out the country's need to reduce the prevailing rate of interest and the value of competition with existing lenders in bringing that reduction to pass. In Java the cultivators take their eight-month crop-loans from the pawnshops, and we should like to see that opportunity given them here. With low rates of interest in the pawnshops that mere opportunity would suffice to bring down the rates charged by the village moneylenders at present. Similarly we should like to see the rates of interest for loans to salaried workers in

* The other two members were not present to vote upon this matter.

towns brought down (see Chapter X) and we think the pawnshops offer one means of attack upon the problem. Whether the investment of money in jewellery is deplorable or not (and we think it is not when confined within reasonable bounds), the fact remains that it will be a long time before the habit is eradicated ; in the meantime it is wise to provide facilities for using jewellery as security to raise loans at reasonable rates when required. Not only jewellery of course ; the improvement of the standard of living and the mechanical developments of the time are bringing into homes many luxuries of considerable value which may quite properly be used to obtain credit on special occasions. It is true that pawnshops have been abused by some classes in Europe seeking money for indulgence in alcohol or gambling ; but the remedy for this is not high rates of interest but moral training, for the addicts of these things will not be deterred by high rates of interest when their minds are focussed upon immediate indulgence. Captain Clarke, the Deputy Commissioner of Tharrawaddy, has told us that children eleven years old already pawn their clothes to buy sweetmeats ; again the remedy is not high rates of interest, but enforcement of the existing rules. More serious than this is the demoralisation of municipal and district council finance by the large license fees. The rules under the Village Act were made in 1921 to assist the police in tracing stolen property ; but owing to the large profit afforded by the prescribed rates the pawnshops have become an important source of revenue for district councils, which are thus getting a vested interest in maintaining the rates so as to avoid taxation of their wealthier residents by authorising high interest on loans to the poor. Moreover any real improvement in the pawnshops of the towns will attract more borrowers from outside ; already a considerable number of pledges are made by rustics who come in to make purchases in the town bazaar and obtain the necessary money in this way. Any amendment of the rules to reduce the maximum rates would be resisted, if it affected the kind of pledges actually taken at present ; and the resistance would come not only from district councils but also from municipalities, who though not subject to the rules would object to lower rates than their own being charged in villages around them. Some municipal committees and some district councils have already expressed horror when we consulted them on the question of license fees, lest they should lose this income and have to impose a tax. But the pawnshop might be the poor man's bank, and it is clearly undesirable that local authorities of any sort should derive large incomes from charging to poor people unnecessarily high prices for facilities which are (or will be made) available cheaply through banks to the rich, who, because of these better facilities, will make no contribution to those incomes. We think moreover that there is serious danger to municipal finances in the liability to sudden reductions of license-fees which constitute so important a part of municipal income and are fixed by auctions at which bidding is in practice almost confined to Chinamen. The license-fees may easily come to be controlled by rings and syndicates. This risk of irregularity of revenue is familiar to those acquainted with the sales of excise-licenses in Burma, and is exemplified by the figures for Rangoon pawnshops in the marginal table at the beginning of this chapter.

(2) The place of the pawnshop as the poor man's banker has been so well recognised on the continent of Europe that pawnshops have been founded as charitable institutions, and even where they are (as

in many places) either a state or a municipal monopoly, they have often been endowed so that they may lend at low rates of interest. In France for instance, which copied these institutions from Italy, where they first originated, the very name of *mont-de-piété* means, as nearly as it can be, translated, bank of charity or benevolence.

(3) In France there are about fifty towns which have municipal pawnshops ; some, having been endowed, charge no interest at all, but some charge as much as one per cent per mensem. In Paris the *Mont-de-Piété* is a department of the municipal administration and in 1911 charged 7 per cent per annum for loans on pledges valued at less than (about) Rs. 55. For larger loans the rate was not less, as might be expected, but higher ; this was because the small loans had a charitable element in them. Advances up to 80 per cent of value are made on gold and silver and 66 per cent for other articles. There are over fifty branches, and the capital consists partly of gifts and legacies and partly of money raised by loan. The profits are devoted to charitable organisations.

(4) We have considered a plan for licenses at fixed fee, issued to a larger but not unlimited number of pawnshops in each town or region ; it seemed possible that by introducing competition in this way the actual rates of interest might be brought down although the prescribed maxima remained unchanged. But we think this plan unworkable for several reasons. Further the abuses which were found in Java, where the pawnshop business has been studied more closely than anywhere else in the East Indies, may be expected confidently to arise in Burma too under a licensing system. Indeed they are already arising. The principal abuses in Java were that the licensees (a) charged excessive interest ; (b) took possession of time-expired pledges or retained the excess sum received through their sale, and (c) substituted other articles for pledges. Moreover experience in Java, where as in Burma the pawnbrokers are practically all Chinese in a non-Chinese environment, has shown that competition does not bring down the rates of interest. The result of the special study of the matter in Java was the adoption of a system of pawnshops managed by the government. We have obtained from the Java Government some information about this system through the help of the British Consul at Batavia, and we think the advisability of inaugurating a similar system in Burma should be closely studied. The question whether the system should include municipalities or not would come into that study. We are disposed to think that the licensee system should be ended, that municipal pawnshops like those in France would not be practicable and that the Government should take over all the shops, but might contribute some of the profits to local funds with suitable adjustment of various claims upon profits obtained in towns which have their own funds but get some profit from persons outside the town using pawnshops within the town. The contribution might be a fixed sum determined either in relation to the present revenue from pawnshops ; or, to deal fairly with the accidental rises and falls of license-fees under the present system, the average for the towns of each district of the quotient of license-fee divided by the population might be taken as the basis for the contributions in that district. In any case the contributions should not be arranged so as to interest the municipalities and district councils in keeping up the level of the present charges.

(5) The system in Java was highly praised less than two years ago by Sir Hesketh Bell, a retired administrator, in his book "Foreign Colonial Administration in the Far East." In describing Java he wrote as follows :—

"For those who need small and temporary financial help Government pawnshops are a great boon. They are to be found in all the populous centres and appear to be admirably managed. Household goods of even the smallest value are accepted as pledges.....So much confidence is reposed in these Government pawnshops that people who are leaving their homes on a pilgrimage, or other long journey, often deposit their household goods in them, not so much for the sake of the money advanced as on account of the security of storage. The pawnshops, besides being a great convenience to the poor and a protection against the rapacity of usurers, are a source of considerable revenue to the Government.....It is difficult to understand the objections that apparently exist against the institution of similar organizations in British tropical territories."

(6) Java is a densely populated country, having an area of 50,000 square miles and a population of 39 millions, or 780 to the square mile. In fact its area and population both approximate to those of England ; while its area is only one-third and its population three times as great as that of the main river-basins of Burma to which our enquiry specially relates. These considerations affect the problem closely ; but the success of the Java scheme is attributed to its intrinsic merits, its excellent reputation and the confidence it has inspired in the people. The system was first started in 1903 and was extended until the main island of Java and the largest neighbouring island, Madura, had been covered in 1917. There are now 458 shops altogether, employing 6,200 persons including valuers trained in a special course of instruction and by practical work. In 1928 in the two islands mentioned there were 47 million pledges for loans equal to just less than 200 million rupees, the corresponding figures for 1918 being 45 million pledges and 140 million rupees. There has thus been ample experience to furnish a basis for judgment.

(7) After experiments in other directions the basis of valuation adopted is one which may be very roughly described as 80 per cent of the new value of the pledge at the place where it is offered, less a deduction for wear and tear. Unredeemed pledges are sold by auction ; and if a price fixed by valuers is not obtained for any article, Government buys it in at that price and exposes it for sale in the show-rooms attached to each shop. Losses on this system have been trifling. At times the value of goods held by Government has been large. For instance, after a poor harvest in 1926 it rose to nearly 5 million rupees. But this total rapidly fell until in 1928 it came below 300 thousand.

(8) It is stated that the large number and increase of the pledges do not indicate the existence and growth of poverty. There are some pawnshops in prosperous localities where the number of pledges has increased five times and the loans ten times since the beginning of Government management ; pledges redeemed are as much as 90 per cent of the total. The people do not save money but acquire goods ; they deprive themselves of the use of the goods temporarily in order to raise money as required. They then save to redeem the goods.

(9) We recommend that Government should study the subject and make similar experiments in Burma as there appears to be no reason

why this scheme, so successful in Java, should not also be successful in Burma, where people are also prone to spend money on the acquisition of goods. If the experiment succeeds, a state monopoly of pawnshops everywhere, including municipalities, should be gradually extended and municipalities compensated on some equitable basis (such as was suggested above) for the loss of their present revenue. The prospects of tapping a new and rich source of revenue are alluring ; but the gain to the public will be even more important if the scheme provides also a system of well-administered pawnshops, which will be really banks for the poor. The present system in Burma has certain advantages ; but, as it is designed to obtain the maximum revenue the pawnbrokers will naturally come to consider themselves justified in making maximum profits and will not be scrupulous as to how they get them. We think the desire of local authorities to have something to say about local pawnshops could be satisfied by a scheme of local advisory committees. But in any case the scheme must reserve power to Government to reduce the charges of the pawnshops from time to time, and use should be made of this power.

(10) We conclude with the caution that if the Java system is copied it will have to be introduced first into one or two districts and slowly extended. After experimenting had been done it took fourteen years more to cover the main island of Java and the one small neighbouring island of Madura. Burma too would require a number of years after completing experiments. Hence the need for a Pawnbrokers Act to carry on in the meantime.

CHAPTER XVI.—COLLECTION OF CAPITAL.

588. **Hoarding.**—Opinion amongst the general public as to the amount of gold and silver hoarded in Burma varies widely. Some think a great deal is hoarded. In the remote and backward tracts, especially amongst Karens in the hills, there seems to be a common practice of burying silver ; but the people there are poor and cannot have any large amount. Of course a small sum hoarded by each of many thousand families makes an imposing total ; but in the present discussion such totals must be viewed in comparison with large standards. These areas are outside the ordinary parts of Burma to which, as explained in paragraph 30, our enquiry relates. Probably the practices seen in remote areas were general everywhere under the conditions which prevailed in Burma in the 17th, 18th and early 19th centuries ; there would naturally be some people here and there continuing those practices. In the country offices of Dawsons Bank and in the Pegu Central Co-operative Bank it has been noticed occasionally that a heap of rupees brought to the bank has left a small amount of earth when counted over ; this suggests that the rupees had been buried, but possibly they had only been buried overnight. Such temporary burying for one or two days is a common practice both with money and with jewellery.

589. It is not possible to say with certainty whether much money is hoarded or not ; but various considerations lead us to think that nowadays, in the ordinary parts of Burma, there is comparatively little gold or silver hoarded in the sense of being buried in the ground or otherwise put completely out of use. It is not easy for a Burman to keep money in his possession. He has too vivid an imagination of the benefits to be obtained by using it to buy something. He knows nothing of a miserly pleasure in the mere possession of money ; he enjoys consuming it. He may purchase material things, or he may get spiritual satisfaction by gilding a pagoda, entertaining *pongyis* (monks) or doing some other work of Buddhist merit. So far is he from hoarding, his disposition is to use his credit to the utmost possible ; he even gets deeply into debt for such works of merit as have just been mentioned. If he hoards at all it is done in the sense of investing in jewellery. The custom of giving English sovereigns as wedding presents seems to contradict this ; but in some cases these have been collected over a long period and often the same coins are sold to do duty again. Sovereigns used also to be collected to give to boys going to England for education ; but this is less often done now.

A rich Burman moneylender dying in 1930 is said (with what truth we do not know) to have left Rs. 700,000 in his safe ; but it was all in currency notes. He was known in his lifetime to have generally about three hundred thousand rupees in notes which he kept in readiness for lending to local Chettiers or for any other profitable use. From time to time considerable sums are reported to have been destroyed by fire, or taken by dacoits ; but these sums too are generally in notes, and one need not believe that all such reports are free from exaggeration. Moreover these large amounts are exceptional, and generally are the proceeds of some recent sale or are money kept or borrowed to be used in the immediate future. There must of course be a number of small collections of savings, because depositing in banks is not practised ; but as a rule these are lent out at interest, though some money is kept, generally as notes, in a place thought safe from theft. In some cases protection against theft is obtained by giving for safe custody to a wealthy neighbour who has a brick house ; this practice shows the first rudiments of a system of deposit-banking and indicates the possibility of getting deposits if confidence in banks which are conveniently situated can be established. Money locked away must however be even less nowadays than it was quite a few years ago ; bicycles, electric torches, cinemas, gramophones absorb and keep in circulation many rupees which, until a few years ago, were kept locked away. The enormous increase in motor-buses has not only brought out the money with which the buses were purchased ; it has stimulated people to travel and developed new channels of trade ; luxuries and novelties of various kinds are being used and are even being stocked by shops in remote villages where formerly hoarding was practised.

590. Altogether there is no need in Burma to teach the error of burying gold and silver ; teaching should be directed to judicious spending and saving and to depositing in banks or investing even small savings. Deposits in banks at reasonable interest will only be made by most people when rates of interest upon local lendings have been reduced and banks have inspired confidence. Banks in fact must be developed to a considerable degree first and deposits sought later ; it is useless to think that savings can be collected as a foundation on which banks can be started.

591. **Usual Investments.**—People who have had much money have generally invested some or all of it in land and used the balance, if any, to finance their tenants or to carry on a moneylending business. Land is still the most favoured investment although other things now compete with it. Land has the advantages of generally continuing to exist and yield profit and of conferring social status ; tenants are easily found owing to the large number of landless men eager to get land to work ; the annual income may not be so large as industrial profits.

sometimes are, but it is more certain and it is not very small ; there is bother sometimes about watching the tenant and financing him, but this can be and is overcome by slightly reducing the rent so as to have a choice of good tenants ; in any case there is no bother with income-tax. Land also has the advantage of being readily accepted as security for loans ; paddy millers and others who have a seasonal business find it best to invest their own capital in land so that it earns all the year round and to borrow on the security of the land in their busy season. Past experience in Burma too has given rise to a strong belief in the appreciation of the capital value of agricultural land. Other forms of investment for people with considerable sums are paddy-mills and saw-mills ; those who do not use these methods may buy paddy at harvest-time and store it for sale after some months, or practise moneylending. In fact nearly all Burmans who have any spare money besides what they want to invest in land, or have not enough to buy a useful amount of land, lend it out in smaller or larger sums, and this is the most popular use of money after the purchase of land. Wealthy men generally like to derive the larger part of their income from rent of land because they feel then that their capital is safe ; they obtain one-third to one-quarter of their income from moneylending because that is more profitable although more risky. Besides these forms of investment there is investment in jewellery ; this is favoured by wealthy people for some part of their money as being more easily realised than land and by poorer people because they have too little money to buy a useful amount of land and the jewellery gives them some enjoyment. Some Burmans make deposits with Chettiars, and in towns where either commercial or co-operative banks exist some have begun to make deposits with those banks ; in the delta some of the wealthier persons outside the towns too deposit in the nearest branch of Dawsons Bank. There has recently been some increase in shyness of Burmans with respect to both Chettiars and banks, owing to the difficulties of the Chettiars in August 1929 and the failure of the Burma Provincial Co-operative Bank and the recollections of the failures of the joint-stock Alliance Bank of Simla in 1925 and of the joint-stock Bank of Burma a few years before that.

592. **Jewellery.**—In Burma as in many other countries there has been a tradition of investing savings in jewellery. We asked district committees to give us some idea of the value of the jewellery ordinarily possessed by people of some typical classes. Most committees said they were unable to give any reply ; the estimates furnished vary in different parts of the country, but seem to afford a rough standard. According to these estimates a typical cultivator working his own land is likely to have for himself and his wife jewellery worth anything from Rs. 25 to Rs. 200 ; a value of Rs. 50 to Rs. 120 seems to be a fair average. Amongst

townsfolk the men often wear heavy rings, but this is not usual with rural people ; only the wife's jewellery is really to be reckoned. Similarly for tenant-farmers the average seems to be about Rs. 10 to Rs. 50 ; for labourers nil ; for a blacksmith or other artisan Rs. 50 ; for a small shop-keeper Rs. 50 to Rs. 150. Many of these have debts at the same time as they have jewellery. In fact many buy jewels and keep them on pledge, taking them out on the special occasions when they are to be worn. This is a ruinous practice, as it means in effect paying an interest about one-eighth to one-sixth of the value of the jewellery every year, although having the use of it for only two or three days in the year. The practice is not so common now as it was formerly. Amongst the wealthier classes in towns money tends rather to be spent in buying motor-cars and other conveniences and luxuries than in buying jewels, and some of the older people have been known to reprove the younger for buying such things and to say that they would show themselves provident if they bought jewellery instead. It is not unusual now for the jewellery worn by Burmese ladies on special occasions to have been hired ; a comparatively small amount of jewellery hired out like this brings an income to the owner (so that there is no longer any resemblance to hoarding) and by frequent appearances gives the impression that much more money is invested in jewellery than is really the case. Artificial diamonds and rolled gold are displacing valuable jewellery to an increasing extent. Two or three years ago too a movement against the wearing of excessive jewellery was started amongst Burmese women in Rangoon, and deposits were made with Chettiers of money that was realised by sales. It has been said the movement was killed by the assessment of the interest on the deposits to income-tax, but that is hardly credible ; more probably it died because, as a first effort, it was not strong enough to continue. Some caution is required indeed in asserting a general tendency to use less jewellery. The last few years have been, as explained in Chapter II, difficult years for Burma on account of the fall in the price of paddy in relation to other prices ; the apparent disuse of jewellery may be only a temporary manifestation of the harder conditions and be followed by greater indulgence when conditions improve.

593. In fact it is unlikely that the Burmese women will ever give up using jewellery ; and we do not think it altogether desirable that they should. The use of jewellery is not entirely a matter of vulgar ostentation and emulation. The Burmese people have artistic qualities and are bound to express themselves in the use of beautiful articles, which will often be made of gold so as to be free from tarnish. Whether those articles are for personal adornment or for other decoration or uses is largely a matter of taste and fashion ; advancing education will probably moderate the amount used on the person and increase the amount used otherwise. Universal condemnation of

investment in jewellery, such as is sometimes heard, is out of place. The real requirements are firstly, reasonable limitation, according to an improved taste and, for persons of moderate means, according to income, and secondly, facilities for borrowing at reasonable cost on the security of jewellery when need arises.

594. **Current Accounts.**—Current accounts in co-operative banks have been discussed already in Chapter XII and those with Chettians in Chapter XIIIb. The only other financiers accepting money on current account are the banks described in Chapter III. The Imperial Bank pays no interest on current accounts. The other banks pay 2 per cent per annum half-yearly on the daily balance provided this exceeds Rs. 1,000 and does not exceed Rs. 100,000 and provided that no interest is paid for any half-year in which the interest earned is less than Rs. 10; special arrangements are made for larger accounts. Usually a minimum deposit of Rs. 1,000 is required, but some banks have a minimum of Rs. 500 and some have Rs. 200. The recent development in England of banking by post has particular interest in Burma where banks are confined to so few centres; we hope an endeavour will be made by the banks to provide for their upcountry customers the various printed forms which make this system so easy to work. There are a number of satisfactory customers who could be obtained if such facilities were offered them. Government's system of allowing officers to draw part of their salary through a bank in Rangoon already affords some help. In some co-operative banks which have ostensibly no current accounts local traders have savings-bank accounts which they use very much as current accounts, save that they cannot draw cheques in favour of third parties but must withdraw money to make payments. The co-operative banks say they like to have the accounts all the same; but we think it is likely to be a matter requiring the attention of the officers of the department, lest the accounts should be costing the banks too much.

595. The co-operative banks use cheques in either Burmese or English. Chettians drawing cheques upon one another write in Tamil, but they require their customers to write their cheques in English. Customers may sign the cheques in any way, but they must put an English indication of the name with the signature; usually this is done by a rubber stamp with the drawer's name. No doubt Tamil cheques would be paid by the Chettian, and similarly cheques in which the signature is written or the name indicated in Tamil; but customers do not use Tamil in this way. The fact is that English is the business language. The banks collect cheques written or signed otherwise than in English provided they have full recourse to the customer. They usually pay cheques only if written in English, and then only if the signature is either in English script or is made in the presence of an

officer of the bank. For the latter case cheques can be signed in advance in the presence of an officer of the bank who attests all the signatures : but this procedure exposes the customer to danger in case a signed cheque-form is filled in by some third party. There are obvious difficulties in a bank, and specially in the clearing, if cheques in a number of languages are to be dealt with. Moreover it frequently happens that a cheque is drawn by a person of one language in favour of a person of another language. We are not therefore prepared to support the suggestions made in India that vernacular cheques in general should be admitted to the clearing. Knowledge of English has spread a great deal amongst business classes and is spreading fast now ; so that there is a diminishing need for anything of the kind. But as some older men do not write English although they can verify a cheque written in English by a clerk, we think it would be reasonable for all banks in the country to recognise Burmese signatures as Dawsons Bank does ; and we suggest that these would be more characteristic of their writers and serve their purposes better than an English signature laboriously written by a person imperfectly acquainted with English. We are impressed by the movement in England and America to bring as many people as possible into the orbit of banking so as to economise in the use of metallic currency. We think the same object should be pursued in Burma, and that the banks will assist in the pursuit if they permit Burmese signatures on cheques ; they will thereby make a current account useful for a considerable class of people and help accordingly in the economising of currency and the development of banking in general.

596. At places where the Imperial Bank has a branch Government already accepts for payment of its dues crossed cheques drawn on banks which have clearing accounts. A temporary acknowledgment of the cheques is given at first and a receipt for the payment is given when the cheque has been cleared. We think this arrangement might be made more widely known, and that in the same districts approved landowners should be allowed the privilege of paying land-revenue by cheque drawn upon the local branch of the Imperial Bank and paid in at the district headquarters. We do not think the necessary arrangements to inform the headman who ordinarily collects the revenue in cash need be cumbrous ; there is the advantage of avoiding risk of loss by the headman and also that of saving the headman as a rule a journey to the town to find the assessee and demand payment. Although the rules require payment to be taken to the headman such journeys are commonly made.

597. We further recommend that all treasuries should accept cheques drawn by approved local banks upon a bank which is either a member of the Rangoon clearing or is represented on it. The local

bank would make the payment by such a cheque in accordance with its customer's instructions and would receive from the treasury an acknowledgment which any headman or government officer would accept in payment of the land-revenue or other government due described in the acknowledgment.

598. Stamp-duty on Cheques.—The stamp-duty on cheques was abolished with effect from the 1st July 1927 by the Indian Finance Act, 1927. No influence of the abolition upon the volume of cheques passed through the clearing in Rangoon is yet perceptible* ; there have of course been other forces affecting that volume. But the abolition has undoubtedly helped to induce traders and others outside Rangoon, especially Burmans,† to open current accounts in the co-operative and other banks.

599. Fixed Deposits.—Money is accepted on fixed deposit by Chettiars, co-operative banks and the banks described in Chapter III. The Imperial Bank and the exchange banks pay rates of interest which are usually from 3 to 5 per cent according to the season of the year, the period and amount of deposit and other circumstances. The other banks of Chapter III pay rather more. The deposits with Chettiars have been discussed in Chapter XIIIb, and those with co-operative banks in Chapter XII. It is to be observed that fixed deposits in Burma are nearly always deposits for a period fixed at the time of depositing. Fixed deposits of the English type, that is, for an unspecified period but requiring a prescribed period of notice for withdrawal are not invited by any bank ; but there may be a few such deposits made by special arrangement.

600. Savings-Banks.—Savings-bank facilities are provided by the post-office savings bank, by the co-operative banks, and by 11 of the 20 joint-stock banks managed on western lines which were described in Chapter III. The succeeding paragraphs will treat each of these three classes in turn.

601. Post-Office Savings-Bank.—The post-office savings-bank works on the same rules in Burma as in India. Its rate of interest at present is 3 per cent per annum. The total number of post-offices in Burma doing savings-bank business in February 1930 was 474. Of these 25 were in Rangoon and 11 in the town of Mandalay. A table showing the number and the proportions to population, area and number of villages in each district is given in the second volume of this report. Omitting districts of particularly sparse population or backward conditions the total number of offices in Burma is 375 ; and there is one

* See paragraph 87.

† See paragraph 69.

office to every 28,000 population, to every 36 village-tracts and to every 340 square miles. This average area would be given by dividing the country into squares of about 17 to 18 miles each way, and in such squares the maximum distance from a post-office at the nearest centre of a square would be about twelve miles.

602. The depositors are residents of the towns, chiefly of the larger towns, and are chiefly Indian. In three sample postal districts with headquarters at Meiktila, Mònywa and Maubin the Indian depositors in each case formed two-thirds of the total ; all the remainder except a few were of indigenous races. Rural depositors are almost non-existent.

603. The total number of depositors cannot be stated for past years with certainty because of complications about the striking out of accounts which have become disused ; owing to this work being incompletely done the number of accounts rose rapidly to over 103,000 in 1927-28. But the number given for 1928-29 is probably correct and is 68,192. The total credit balance on the 31st March 1929 was 10·7 million rupees, as compared with 6·9 millions in 1920 ; there has been a steady increase in the meantime. The average credit balance per account was Rs. 157 in 1929 and Rs. 105 in 1920 ; it had therefore kept pace with the general level of prices. On an average each office has 144 accounts with Rs. 22,553 at credit, and deals with 320 deposits and 161 withdrawals every year ; but since the accounts are few at offices in small towns and villages these averages do not represent typical offices. The total amount deposited each year has increased from 6·2 million rupees in 1919-20 to Rs. 8·6 millions in 1928-29, while withdrawals have similarly increased from Rs. 4·7 million rupees to 6·7 millions. On an average there are 2·22 deposits and 1·12 withdrawals from each account every year ; the average amount of a deposit is Rs. 56 and the average withdrawal is Rs. 87. The average deposit has decreased from Rs. 67 in 1919-20 and the average withdrawal from Rs. 107 in the same year. The average cost of a deposit or withdrawal at the Rangoon General Post-Office is about five annas ; for other places it is believed to be less, but we have no figures. Five annas compares favourably with the cost in England both in the post-office and in trustee savings-banks.

604. The average deposit is increased by transfers of accounts from one office to another, the whole amount being treated as a withdrawal. But this increase cannot be large. Withdrawals are affected more in this way because the whole balance of a deceased depositor makes one large withdrawal, and because more accounts are transferred from Burma to India than from India to Burma. The high average of Rs. 56 for the average deposit thus shows that no large part of the deposits is made by people of small means who can save only a little at a time, and points out the direction in which propaganda should be carried on. The last Postmaster-General told us that the facilities of the savings-

bank are well-known. But mere cognizance of the facilities is not enough. What is wanted is a conviction in the heart of every person with income above the bare standard of subsistence that he ought to save some reasonable part of the excess. For large numbers of people, attaining a comparatively low standard of life only with some difficulty, strenuous saving would be a mistake ; but there are large numbers of clerks and other salaried persons who ought to save more than they do. The necessary conviction must be brought about by propaganda aided by improved facilities. We have known several clerks in Government offices who have become grateful (after a time) to superior officers who have induced them to open savings-bank accounts. Life-insurance, provident-funds and savings-accounts all serve different ends, and, if means permit, all should be used. But a moderate savings-account seems to come first in order of need because it would help to keep up insurance-payments at times as well as be available for other urgent small needs.

605. The last Postmaster-General commented upon the number of offices doing savings-bank business, and explained that more savings-bank offices could be opened if the people gave more support to post-offices in their general work.* But the further development of the savings-bank is not dependent upon an increase in the number of offices. It is impossible to provide an office in every village, and, moreover, local co-operative societies should take most rural savings. The wisest plan is to concentrate upon the towns where deposits are already made, and particularly upon industrial trading and administrative centres like Insein, Myitnge, Yenangyaung, Syriam, Prome, Bassein, Mandalay, Rangoon, and upon the clerks in the offices of Government and local authorities. A difficulty is that the post-offices are not open for savings-bank business when salary-earners are able to go to them ; and opening at other hours is difficult to arrange. Moreover it is difficult to make oneself deposit regularly if a journey to a post-office in the monsoon rain or the very hot weather is necessary, even if the journey is short. Heads of factories and offices can help by arranging to make deposits in the day-time with sums held back from salaries for the purpose ; the post-office should supply for the purpose a form which would be filled in with a record of all the deposits to be made and sent to the post-office with all the pass-books. In most places a cheque could be accepted for the deposits without either risk or inconvenience to the post-office. In the largest towns arrangements might be made for opening on at least some days after offices and factories close ; this would permit withdrawals by persons who cannot attend in the day-time. Some arrangement could also be made through employers to facilitate withdrawals on certain days. When reduced to routine these

* See paragraph 63 in Chapter II.

arrangements would give little trouble to anybody ; in fact they would give less trouble to the post-office than the receiving of separate cash deposits. Caution is needed on one point ; heads of offices and other employers should not persuade their establishment to fix too high an amount for monthly deposits ; generally a small initial rate increased by half of each increment of salary is more likely to be maintained.

606. Another point raised by the last Postmaster-General was the difficulty of providing post-office clerks who know Burmese. This matter is receiving attention. Meanwhile the difficulty can be met to a large extent by printing the heading of the columns of the pass-books in Burmese as well as English. Similarly the rules, which at present are printed in English alone in the pass-books, should be given also in Burmese, the more important provisions being picked out and given separately for the benefit of those whose literary attainments are not sufficient for a study of a long set of rules. Some of the rules need not appear in the pass-books at all. Most Indian depositors in the towns are probably sufficiently acquainted with English to verify the entries in the pass-books, but real popularisation of the savings-banks requires the recruitment of Burman depositors. For the towns in which we advocate the concentration of effort for the present, entries can be made in English figures ; these are known sufficiently well.

607. The introduction of home-safes into the post-office savings-bank system should be tried ; it would be justified by even a small number of depositors using the safes. Home-safes are small boxes specially constructed for coins and notes to be put into them conveniently and stored there ; the key is kept at the bank so that the depositor is not tempted to open the box to spend his money ; from time to time the box is taken to the bank to be opened and the money is then placed on deposit in a savings-account. The depositor is required to give a sum equal to the cost of the box as security for its due return to the bank. Home-safes succeed in inducing savings because of their psychological influence over the depositor. They have been taken up by the large banks in England because they are expected to establish in the depositor habits of saving which will make him become an ordinary customer of the bank ; it is largely for this reason that they invite depositors to " come often to the bank. " The cost in England or America of a home-safe of the type which registers the amount contained is about Rs. 3, while a simpler box not registering costs Rs. 2. The registering box would perhaps be more popular in spite of the larger security-deposit given for it. But since stocks of the safes need be kept only at Rangoon there would be no difficulty in using both kinds at first until depositors show a distinct preference.

608. The maximum amount which may be deposited in any one year should be increased from its present limit of Rs. 750 to Rs. 1,500. The only danger in increasing the limit is that at a time when money is not

easily employed profitably a large amount of deposits might be brought to the post-office to earn a little interest ; the limit suggested is sufficiently low to meet this.

609. The maximum amount to be held at the credit of any one account should be increased from the present limit of Rs. 5,000 to Rs. 10,000. The difficulty of raising the limit arises out of the risk of large sudden demands for withdrawals. This is serious only where there is no treasury in the same town. At post-offices in these places special notice might be required for large withdrawals ; and for withdrawals above some limit, say Rs 3,000 for some places and Rs. 1,000 for others, the depositor might be required to go to the district headquarters to receive the money unless a nearer sub-treasury is generally able to provide the money. It must be remembered that large sums are more likely to be required for use in a large town, and it will generally serve the depositor's convenience even better to draw the money there than in the post-office nearest to his home. A week's notice might be required ; this would prevent the arrangement being abused to get free remittance in an indirect way.

610. Depositors should be permitted to nominate persons to receive their deposits up to any amount after death. Burmese Buddhists may not make wills ; but this causes no difficulty, because all that the post-office requires is a good discharge for the moneys paid out. This in fact would be a convenience for the post-office which would thus be freed of all bother about the account. Such nomination is permitted by the co-operative societies acts for deposits in co-operative credit societies and banks.

611. The general prohibition of joint-accounts, other than accounts opened by a known firm, should continue in Burma so long as Burmese Buddhists are unable to make wills. But accounts in the joint names of a Buddhist husband and wife should be permitted, as after the death of either spouse the other has under Buddhist law the right, subject to accounting to the other heirs, of controlling the property. As a matter of fact joint deposits by a Burmese Buddhist husband and wife are permissible even under the present post-office rules, because a Burmese Buddhist marriage is legally a partnership and accordingly comes under the exception in favour of " a known firm " ; but this fact has not been recognised.

612 We reject the suggestions that the rate of interest should be raised ; that rate must depend upon the general level of interest-rates, and its present general relation to the rates paid by banks and earned by government securities should be maintained. An enhanced rate of interest inappropriate for savings-deposits with government security is not the proper means of increasing the popularity of the banks. We have already in paragraph 416 advised against allowing co-operative societies a higher rate of interest than other depositors. -

613. We also reject all the suggestions that have been made for using the post-office savings-banks as safe deposits or as loan offices as well as the suggestion that post-office savings-bank moneys should be lent to local co-operative societies.

614. It is now many years since the question of liquid resources for post-office savings-banks in Great Britain was raised by Bagehot.* The argument was that any run upon the savings-banks which occurs will probably come at a time of general difficulty, and the Government's inevitable application to the Bank of England for accommodation to meet the run would thrust upon that bank at a difficult time a strain for which no provision had been made. In case of such a crisis affecting the post-office savings-banks in India and Burma it would be useless to issue more paper currency to pay the depositors. We recommend therefore that a suitable reserve for savings-bank accounts should be added to the minimum reserves required to be kept for the paper currency.

615. We recommend also that an enquiry should be made into the causes of the high averages for deposits and withdrawals from post-office savings-banks. We think a knowledge of the circumstances leading to these must be of importance to the postal department as well as to all who undertake any propaganda on a considerable scale to encourage saving. A study of the ledgers of a number of accounts in a few offices would probably throw some light on the matter.

616. **Co-operative Savings-Banks.**—Savings-accounts are opened by all co-operative town banks and district central banks. We have already given in paragraph 406 statistics of the deposits showing a grand total of Rs. 594,000 of which 82 per cent or nearly five-sixths were deposited by indigenous people, and one-ninth of the total, *i.e.* two-thirds of the balance, by Indians. We have advised that an effort should be made to increase these deposits, and also to develop savings-deposits in primary societies. These last in fact should fill the gap left open by our recommendation for the post-office savings-banks to concentrate upon development in the towns.

617. **Savings-accounts in Joint-stock Banks.**—Deposits on savings-bank accounts are accepted by the Imperial Bank, four of the exchange-banks and six other banks. The four exchange-banks are the Allahabad, Lloyds, the National City and the Yokohama Specie banks. The remaining six are the Central Bank of India, the Bengal Central, the Burma Loan, the Chinese Merited and Dawsons banks, and the bank of Balthazar and Son, Ltd. Thus the only savings-banks outside Rangoon, apart from the post-office and the co-operative banks, are at five offices of the Imperial Bank in Bassein, Moulmein, Akyab, Mandalay and Myingyan and at the eight offices of Dawsons Bank in

* *Lombard Street*, Chapter XIII ; first published 1873.

the Irrawaddy division (Pyapôn Bogale, Kyaiklat, Dedaye, Maubin, Kangyi, Moulmeingyun, Bassein). A deposit of not less than five rupees (in some cases ten) is generally required to open a savings-account at a joint-stock bank, but smaller sums are accepted for subsequent deposits. The Central Bank of India, the Bengal Central Bank, and perhaps some others already supply home-safes (see paragraph 607) in connection with their savings-bank accounts, and some other banks are disposed to do so. In some of the banks there are no rules restricting withdrawals without notice, but the management watches to see the accounts are used only as savings-accounts. In most of the banks withdrawals are restricted to once a week on pain of loss of interest on the whole account for one month or six months ; in addition notice of a week or a month is required to withdraw more than a quarter of the credit-balance of the account or (in some banks) more than some prescribed sum, generally Rs. 1,000. Several of the banks supply cheque-books to their savings-bank depositors, who may then draw cheques against their accounts in exactly the same way as depositors on current account, save that they are limited by the restrictions upon the frequency and amount of withdrawals. A special use of the cheques is to make a withdrawal without attending personally at the bank ; but the cheques can be realised by any payee through his bank without distinction from cheques drawn against current accounts. The usual rate of interest now given by the joint-stock banks for savings-bank accounts is four per cent per annum.

618. Government Securities.—Government's securities representing moneys it has borrowed in India or Burma are issued in the five forms (i) treasury bills, (ii) post-office cash certificates, (iii) stock certificates registered in a public debt office and transferable only by deed presented at that office, (iv) promissory notes transferable by endorsement and delivery, (v) bearer bonds transferable by mere delivery. Treasury bills represent temporary borrowing by the Government of India, usually for periods of three to twelve months. They are not suited to ordinary private investors, but are of great importance to banks as liquid investments for surplus funds which might otherwise lie idle. There has been criticism of the way Government has managed its borrowing in this form ; but as this is a subject for the central banking committee it is not taken up in this report, where first post-office cash certificates and then the remaining three kinds, which are the main forms in which Government's rupee debt is held, will be discussed. Persons unacquainted with government securities but proposing to invest in them otherwise than through the post-office (see paragraphs 619 and 632 below) should consult the *Guide Book for Investors in Government of India Securities* which is published by the Government of India and is sold for two annas at the Central Publication Branch of the Government of India, Government Place, Calcutta.

619. **Post-office Cash-Certificates.**—Post-office cash-certificates were first issued in 1917-18. They have a growing redemption value arranged so that if left for five complete years to mature they yield the equivalent of 5·25 per cent compound interest added yearly. From the 1st April 1923 to 31st March 1926 the rate was 6 per cent; from 1st July 1927 to 31st July 1929 it was 4·5 per cent; at all other times it has been as now. The certificates can be redeemed at any time, but if redeemed before five years expire the profit is rather less than the full rate of interest would give; there is a very small profit in the first year and a large addition to the profit in the last year. The certificates are sold at such rates that the redemption values after five years will be 10, 20, 50, 100, 500 or 1,000 rupees; these redemption values are always used as the nominal values of the certificates. Transfer from one holder to another is effected by written application in a prescribed form without any expense. Nobody is allowed to hold certificates of greater total value than Rs. 10,000 because it is not intended that the certificates should compete with ordinary government securities in any way. The profit on the certificates is not only free of income-tax, but is not reckoned as income to determine the rate payable upon other income. Government offices are authorised to accept certificates from persons required to give security.

620. In the second volume of this report we give a table showing the sales and redemptions of cash-certificates in the area of each head post-office in Burma for each of the last four years. We also give a statement of the total sales and redemptions in Burma and in India (including Burma) since their first issue. On the 31st March 1929 the total issue-price of all certificates outstanding in all India and Burma was 323 million rupees, of which 5·39 millions had been contributed by certificates issued in Burma. The purchasers are chiefly Indians, Europeans, Anglo-Indians and Chinese living in towns; few, if any, are bought by people living outside the large or middle-sized towns, and indigenous people even in the towns rarely buy. The annual sales have varied so irregularly that no simple conclusions can be drawn from the figures for them.

621. Three Burmese members of the committee support the proposals made by several witnesses that the issue-price of cash-certificates should be reduced to 75 per cent of their face value so that for a fully matured certificate the yield will be equal to 6 per cent compound interest as it was from April 1923 to March 1926. They approve the suggestion made by Mr. Subbaiya, an accountant in Rangoon, that the redemption-rates should be so graduated that a certificate redeemed after one year should receive interest at 4 per cent and that for each succeeding year the rate should increase by one-half per cent (and be compounded as now) and they recommend Government to adopt this plan. Two other members of the committee however take a

diametrically opposite view and recommend 'reduction' of the rate of profit. The other three members could not attend the discussion of this matter. The view of the two dissenting members is as follows :—

Minority View of Mr. Dawson and the Chairman.—(1) In the five years 1923 to 1928 the total face-value of certificates sold in Burma was 8·4 million rupees. The percentages invested in certificates of the various denominations were as shown in the margin hereby.

Value.	Per cent.
10	0·4
20	0·6
50	1·4
100	11
500	35
1000	53
	100·4

In considering the figures it must be remembered that for various reasons the certificates of low denomination are sometimes bought instead of one of a higher denomination; e.g. to enable the holder to realise any fraction of his holding by itself, or because certificates of higher value happen to be out of stock. The high percentages of certificates of large value are arresting*. To a large extent this is due to the purchase of cash-certificates as an economical form of security to be given by cashiers, bailiffs, contractors and others. Some

part is due to the investment of reserves by miscellaneous societies, hospital subscription funds and the like. But it is also due in part to the investment in these certificates of well-to-do people who see in them a safe investment of particularly good yield, costing nothing for stamp-duty, and easily realised without any risk of a fall in market-value; such investors also had formerly the privilege of being able to keep the certificates in the safe-custody of Government free of charge. The withdrawal of the safe-custody concession has made the certificates less appropriate to the poorer people than the savings-bank, because these cannot generally have any safe place to keep them; on the other hand, if, by reintroducing the safe custody arrangements, the certificates could be popularised, the cost of the arrangements would be large and make the certificates an expensive way of raising money for Government if the equivalent of high interest is also paid.

(2) Bankers complain that the certificates compete with them unfairly in the collection of deposits because they cannot afford to offer rates of interest which will compete with the profit on cash-certificates which have the additional advantages mentioned above. Co-operative banks hitherto have offered rather high rates of interest, and have not felt the competition of the cash certificates; but this will prove a serious obstruction in any effort to reduce the rates paid by these banks, especially as the certificates can be redeemed at any time while fixed deposits in the banks must generally run their course. In addition there is little hope of developing a habit of investment in industries and land-mortgage banks so long as these certificates yield so much. It is true that many certificates, being redeemed before they become mature, earn interest on a lower scale than those that mature; but this is analogous to the loss of interest on premature repayment of a fixed deposit and does not affect our view that the interest is too high, having regard to the quality of the security and the conveniences of the certificates. Accordingly we think the proportions sold of various denominations show that it is desirable to reduce the profit offered. The certificates

* The corresponding percentages for all India are similar.

do not bear the same relation to the savings-bank as five-yearly fixed deposits would do, because they can be realised at any time ; but the increasing *rate* of profit makes them partake of that character.

(3) We think that with the exemption from income-tax a rate about one per cent in excess of the post-office savings-bank rate (now 3 per cent without exemption from income-tax) is sufficient and that Government ought not to offer more. A sale price of Rs. 8-4-0 per Rs. 10 of nominal value would give a yield of approximately 4 per cent; the present price being Rs. 7-12-0, the price might be raised to Rs. 8-0-0 for a year and increased to Rs. 8-4-0 after that. The small proportion of ten and twenty-rupee certificates bought shows that this would have no effect in discouraging saving; this is realised even more clearly when it is observed that the average annual values of the purchases of ten and twenty-rupee certificates in 1925 to 1928 were only Rs. 6,006 and Rs. 9,668 respectively while savings-bank deposits in 1929 were over 8·5 millions. It is the privilege of being able to offer the certificates to Government as security, and the opportunity to get a good rate of interest with complete exemption from income-tax that increase the sale, not the desire of people of small means to invest their savings with the least possible risk. In war-time, when these certificates were first issued, the object was only to raise as much money as possible; but it is time now to make a closer analysis of the circumstances and a closer adaptation of the certificates to a clearly conceived object of providing an investment in government securities for people of small means and of thus tapping for Government a source of deposits of moderate duration not otherwise available. People of moderate or large means who buy a large amount of certificates and would be sensibly affected by the increase in their price should be catered for by better facilities for the purchase and sale of ordinary government securities. We recognise that our recommendation for the reduction of profit on cash certificates is opposed to the advice of most people who dealt with the matter in answering the committee's questionnaire. None of those in fact contemplated reduction. Most advocated an increase of profit. But we think these recommendations aimed only at providing a more attractive bait to increase the sales. We think also the reduction of the profit given on the certificates would enable government to bear the expense of providing safe custody for the certificates as proposed in the next paragraph ; such a privilege of safe custody would be further compensation for the difference of interest between the certificates and regular government securities.

622. We agree in recommending that Government should provide facilities for safe custody of the certificates.* Until 1924 arrangements were in force for deposit with the Accountant-General (Posts and Telegraphs) in Madras, but this is inconvenient to the holders and at the same time (as pointed out above) must be an expensive arrangement if the number of small holders increases largely. There is no doubt that the difficulty of keeping the certificates safe must always make them unpopular in rural areas where houses are not solidly built. There is moreover the example of France, where, largely through the provision by the large banks of facilities for the safe custody of

* See also the last sentence of the minority view in the preceding paragraph.

securities, the practice of investing has been so highly developed among the great mass of the people. We suggest that the holder of a cash-certificate might be allowed to hand it in at any post office together with one anna and get a temporary acknowledgment for it ; the post-office should pass it on to the treasury-officer who would post a formal acknowledgment to the depositor. On first issue of a certificate the acknowledgment would be arranged forthwith on payment of an extra anna for the postage incurred. The postage-charge would be the same for any amount of certificates deposited at one time in one name, up to the number which would require additional postage. The work in the treasury would be simpler than that now offered for the safe custody of government promissory-notes.

623. As in the case of savings-bank deposits we recommend that every holder of cash-certificates should be allowed to nominate a person to whom they should be transferred in case of his death. The case of married Burmese Buddhists may require special consideration.

624. We also think the position with regard to the maximum holding of Burmese Buddhist husbands and wives, owning certificates either jointly or in their separate names, should be made clear in advertising the certificates in Burma.

625. Other Government Securities.—When Government makes a new loan it arranges to receive money for it at the Accountant-General's office, at every district treasury, and at all offices of the Imperial Bank of India ; all banks also will of course receive money for the loan too. An investor who wishes to do so may however buy from persons already holding them securities representing previously issued loans, and conversely he may sell his own securities to others. In Rangoon there are brokers and bankers who will arrange to buy or sell securities in the stock-market at Calcutta ; sometimes they have both buying and selling orders at the same time and can match them so as to have only the difference to buy or sell. The Imperial Bank of India always has a stock of securities ready for sale over the counter at all its branches. If the investor lives far from one of those branches he can remit his money by Remittance Transfer Receipt to the Calcutta office of the Bank free of charge from the nearest government treasury, provided the amount is not less than Rs. 5,000. Similarly securities can be sold and the proceeds will be remitted free of charge to the treasury designated for the purpose ; brokerage incurred in Calcutta in selling the securities is charged, but nothing is charged for remitting. The post-offices also have arrangements for buying and selling securities ; but these are restricted to savings-bank depositors and are limited for each person to a maximum of Rs. 5,000 nominal value in any one year. When the market price of a loan is below par there is a gap between the arrangements at the treasuries and at the post-offices

which is not provided for, because the treasury arrangement does not come below Rs. 5,000 market-value while the post-office does not go above Rs. 5,000 nominal value. The Imperial Bank and, subject to certain restrictions discussed below,* the post-office also have arrangements for selling securities and holding them in safe custody; the treasuries hold promissory notes† in safe-custody but not bearer bonds. Interest on securities purchased through the post-office and held by the post-office in safe custody is credited to a savings-bank account at any savings-bank post-office designated by the holder of the securities. In other cases interest on stock certificates and bearer bonds can be made payable at any treasury or sub-treasury, but for bearer bonds it can only be made payable at a treasury.

626. We recommend that a Public Debt Office should be established in Rangoon. If Burma is separated politically from India this will naturally occur; but it is equally desirable if the separation does not take place. At present dealings in government securities are hampered by the delay involved in using the markets of Calcutta and Bombay; Burmese endorsements also would give less trouble in a Rangoon office. The establishment of a public debt office would probably help in time in developing a general stock-market, and so encourage investment in industrial and commercial securities and in the debentures of land-mortgage banks. It would thus help as suggested in paragraph 48 to stay the tendency for agricultural land to come into the hands of non-agriculturists as well as facilitate the general development of the country by collecting scattered masses of capital so that they can be made to earn a profit still when their present use for moneylending has been prevented by the provision of better credit facilities.

627. The four Burmese members of the committee think that government loans should be issued free of income-tax because they will then be more attractive to small investors. These members wish to see people investing in government loans, because the money so invested will be used in the country; they think assessment to income-tax discourages small investors. Two other members of the committee dissent from this and give their view as follows:—

Minority view of Mr. Dawson and the Chairman.—With precisely the same object of encouraging small investors to buy government securities we take a view directly opposite to that of our colleagues and recommend that ordinarily the interest on a government security should be liable to income-tax. In issuing tax-free securities as well as in issuing tax-bearing securities Government tries to get loans at market-rates. Since the greater part of each loan is held by banks and other bodies which must pay the highest rate of income-tax, there cannot be much difference in the net return from the two classes of securities when tax

* See paragraphs 632 and 636 to 638.

† For stock certificates safe custody is not necessary as they are of no value in the hands of a wrongful holder and duplicates can be obtained without much difficulty.

is reckoned at that highest rate. Consequently a small investor whose income would be liable to a low rate of assessment gets for a tax-free security less than he would on a tax-paying security. There is thus a strong discouragement of small investors in tax-free securities. We think the conveniences to some investors of a fixed net rate of interest independent of variations in the rate of income-tax has been over-estimated, and that on a broad view it is generally better for the country that all wealthy holders of government securities should bear any increase of income-tax and have the benefit of reductions, while small investors should be encouraged by the higher net rates of interest they would get. The real objection of small investors with regard to income-tax arises from the bother of asking for refund of the excess tax deducted at the source. If they apply to the local income-tax officer for this refund they must make a full return of their income; some with incomes only a little above the taxable minimum prefer not to exhibit their liability to pay tax on their other income, while all find it troublesome to make the return. The remedy for all this seems to be provided by the proposals below with respect to the custody of securities by the post-office.

628. We recommend that the minimum amount to be remitted by treasuries free for the purchase of government securities should be reduced from Rs. 5,000 to Rs. 1,000 and that corresponding arrangements should be made to sell securities and remit the proceeds to any treasury named by the seller. For the purchase of securities also we think that up to a maximum of Rs. 2,000 arrangements might be made for sub-treasuries (except certain ones to be named in the rules) to receive the order and the money and pass on the order to the treasury officer, although sub-treasury officers are not authorised to issue remittance transfer receipts in general. These recommendations leave a certain sphere in which either the treasuries or the post-offices could be used for buying and selling. We think no difficulty need be made about this; the public can choose which plan it likes according to the conditions of buying and selling in the post-offices and treasuries, and the conveniences with respect to payment of interest and of relief from income-tax in case the securities are left in safe custody with the post-office. It must be remembered too that treasuries are much sparser than post-offices.

629. A desire has been expressed for some way to facilitate the purchase of government securities by instalments. In places where banks exist such purchases can always be made; any bank would be willing to advance the purchase price on deposit of, say, one-tenth, the balance to be paid by monthly instalments. The net cost to the purchaser would differ very little from the cost in case the money was saved in a savings-bank until the required total had accumulated; the advantage is that the investor feels compelled to make his monthly payments and establishes habits of thrift. In other places the natural plan is to use the post-office savings-bank first to make monthly deposits and then to buy the securities through the post-office.

630. In selling government promissory notes through a bank (though not in buying them) there is, besides the present lack of remittance facilities, a difficulty for people who cannot read and write. These must get a magistrate to make the necessary endorsement for them. We see no means of remedying this, but in fact we doubt if the difficulty is likely in Burma to arise. The Accountant-General however has stated in his evidence * that the difficulty arises for all who cannot read and write English. This seems to be due to a misinterpretation of the rules. Rule 37 of the Indian Securities Rules, 1920, prescribes the procedure of endorsement by a magistrate; but it refers only to the case of a person who is unable to write at all. Paragraph 42 of the Government Securities Manual (1921) also provides for transliteration of vernacular signatures into English, but does not say who shall make the transliteration. If a public debt office is established in Rangoon there need be no transliteration of Burmese signatures; much better would be a copy of the signature in clear round handwriting. Every treasury officer who receives a promissory note for sale must see that the signature agrees with the previous endorsement or with the name on the face of the note; the re-writing of the name would not give additional work but would automatically conduce to better examination of the signatures. At branches of the Imperial Bank too there need be no difficulty in dealing with Burmese signatures in the same way; Burmans clearly have a right to have signatures in Burmese accepted in Burma. Standard forms of endorsement in Burmese should also be prescribed to correspond to the English forms in paragraph 41 of the Government Securities Manual. For other languages we think the treasury officer should make the transliteration, if it is not already given, after taking the usual care to identify the person. If a public debt office cannot be established in Rangoon Burmese signatures also should be treated in this way.

631. **Government Securities in the Post-offices.**—The last Postmaster-General noted in his evidence before us that, so far as he was aware, investment in government securities through the medium of the post-office has never been popular. He said that such securities do not attract small investors who find the savings-bank and the cash-certificates suit them better; while large investors generally prefer to deal through a bank.

632. The facilities afforded by the post-offices for investors in government securities are set out in Section VI of the Post and Telegraph Guide. The more important rules have been reproduced in the second volume of this report for convenience of reference. The post-office is willing to buy securities for any person provided that the excess in any one year of the nominal value bought for him above that sold for him does not exceed Rs. 5,000. The price is the current market-rate for the day, and no brokerage or other expenses are charged for. In particular

* See his reply to Question 1017 in the third volume of this report.

there is no charge for remitting money to the stock-market. The post-office is also willing to sell again at the current rate and free of expenses such securities as it has bought in this way, provided that the holder is a savings-bank depositor. Meanwhile the post-office is willing to hold the securities in safe custody free of charge, provided they have been bought through the post-office, and the holder is a savings-bank depositor at the time of giving into safe custody. Such safe-custody carries with it too a valuable privilege because securities which otherwise are subject to income-tax are treated in the same way as securities which are free of income-tax; that is the income from them is itself exempt from tax although it is added to the recipients' other income to determine the rate of tax payable on the assessable part of his income.* But the amount of securities ordinarily liable to income-tax which may be deposited is limited to Rs. 22,500 nominal value. Securities which are free of income-tax may be deposited up to any value; for them the only restriction is that imposed by the limit of Rs. 5,000 for total purchases of tax-paying and tax-free securities in one year.

633. If facilities are given at treasuries for the purchase of securities costing Rs. 1,000 or more, the maximum nominal value to be purchased through the post-office in any one transaction could be reduced to Rs. 2,000; but we think it is really unnecessary to introduce this complication of the rules.

634. All the present post-office rules with regard to government securities have clearly been designed to afford facilities and encouragement to savings-bank depositors. We think a wider view should now be taken so that the object will be to facilitate transactions in government securities by all small investors. It must be remembered too that any person can become a savings-bank depositor by depositing four annas, and needs only make a fresh deposit of four annas once every four years to keep the account alive. In particular we think the condition that a person offering government securities for sale through the post-office must be a depositor should be abrogated.

635. It further seems unnecessary to limit the selling facilities to securities bought through the post-office. They should at least be extended to securities for which the holder subscribed; and then securities bought from such a holder by a local person seem to have an equal claim. If facilities for buying and selling amounts exceeding Rs. 1,000 in market value are given at the treasuries as we have recommended, securities not bought through the post-office up to a limit for each person of Rs. 2,000 nominal value in one calendar year should be accepted for sale by the post-office. If the facilities at the treasuries are not given this limit might be Rs. 5,000. There should still, as now,

* Sections 3, 8 and 16 of the Income-tax Act read with the Finance Act; notification under section 60 of the Income-tax Act given as item (1) on page 107 of the Income-tax Manual, Volume I, 3rd edition.

be no limit to the amount sold of securities purchased through the post-office. We recognise however that careful instructions to postal officers will be necessary to prevent people from selling through the post-office securities to which they have not a good title. It may even be necessary to require the execution of a bond of indemnity, possibly with guarantors ; but we hope this can be avoided.

636. The safe-custody restrictions seems to rest upon a confusion of ideas. If the facilities are intended only to encourage small investors there is no reason for excluding tax-free securities when comparing any holding with the limit ; if the exemption is intended to be a practical measure to avoid collecting income-tax from small investors who are not liable to tax and will claim refunds it is wrongly arranged, because any person however large his holding can take advantage of the arrangement, provided he has the foresight to buy through the post-office. In fact the larger his income the more it pays him to sell in lots of Rs. 5,000 annually securities he has bought elsewhere, and to buy an equal amount in substitution through the post-office. All that is necessary to help and encourage small investors is relief from collection of the tax at source ; all that is necessary for the income-tax department is to avoid collecting tax which has to be refunded and yet to collect what is really due. The limit of Rs. 22,500 seems likely also to have been fixed on a basis of the amount that would yield Rs. 1,000 interest at 4·5 per cent when the maximum income exempt from income-tax was Rs. 1,000. But that way of fixing the limit ignored the cases in which the investor had other income and so should have been assessed ; and on the other hand it was not modified when the minimum assessed income was raised to Rs. 2,000.

637. We recommend—

- (a) that every savings-bank post-office should, on behalf of the Deputy Accountants-General, Post and Telegraphs, accept for safe custody government promissory-notes and stock certificates up to a total nominal value of Rs. 30,000 from any one person without reference to liability to income-tax or the manner of purchase ;
- (b) that interest paid on securities in such safe custody should be paid in all cases without deduction of income-tax, but every holder should show separately in reporting his income to the income-tax officers his tax-free and other income derived from such securities and should be assessed according to the ordinary rules ; and
- (c) the chief income-tax officer in each district should be permitted to inspect the records in the post-offices of that district of the deposits of securities, and to use in making assessments or report confidentially to other income-tax officers information so gained.

Securities already in safe-custody would continue under the present rules, but would be added to new purchases for the application of the new limit of Rs. 30,000. The provision for exemption from deduction of income-tax at source for any securities deposited with the post-office would provide small investors with a way to avoid claiming refunds of income-tax for which they were not liable, and would save the income-tax officers the labour of making such refunds. Indeed the income-tax officers would probably make a point of telling the applicants how to avoid the need for future applications.

638. In the case of securities deposited for safe custody we approve of the depositor being required to have a savings account to which the interest will be credited. There is no need to pay the interest to him in cash at his home as though it were sent by money-order; on the other hand the deposit of the interest in his savings-account is likely to cause him to save it, and may even stimulate him to add further savings. In this connection we note what appears to be a defect in the present post-office Rule 48, which only requires the holder of securities tendered for safe custody to be a savings-bank depositor at the time of tendering, although for Rule 49 to work he must continue to be a depositor so long as the securities are in safe custody. If the account is closed no interest should be paid till it is re-opened. If the holder of the securities dies his executor should be allowed to have a separate savings-bank account for the estate until the securities are transferred to the new holders.

639. **Stock-exchange.**—The provision of a satisfactory stock-exchange is necessary for the encouragement of investment in land-mortgage banks and in industrial and commercial enterprises. There is a Rangoon Stock Exchange, but owing to the small numbers of brokers and the small volume of transactions it is of little importance. The exchange-room is in a broker's office, and it is not visited every day by all the brokers; sometimes a broker telephones his report of a transaction. We asked the Rangoon Stock Exchange what improvements could be made in it and how a regular market for Government securities could be started in Rangoon; the Exchange replied that it had no evidence or reply to put forward. We think the establishment of a public debt office in Rangoon, as recommended above,* would help to develop the stock-exchange. There have been complaints against the present stock-exchange on the ground that its members do both dealing and jobbing; but the same system is in force in Calcutta, and we believe that the members say they could not make a living otherwise, and we are at present unable to make any constructive suggestions.

640. **Investment-trusts.**—We have considered the promotion of investment-trusts. We do not regard them in their ordinary form as feasible in Burma for some years to come; but an investment-trust, on

either a joint-stock or a co-operative basis, investing only in shares and debentures of large investment trusts and standard securities in Europe and America as well as India and Burma, might afford a useful introduction of a number of people to the practice of investing in industrial and commercial securities.

641. Insurance.—All forms of insurance assist in the development of banking by encouraging thrift and by reducing the risks of borrowers and therefore of the banks, and should therefore be encouraged. Life-insurance should be encouraged as an investment to be taken up as a rule by those who have already made some savings in a savings-bank. But we do not advocate the extension to the general public of the post-office insurance and annuities scheme, now applicable to Government servants. We consulted several insurance agencies and bankers on the proposal and found opinion against it nearly unanimous. The scheme used in the British Post Office for many years has been given up because good life-insurance companies and societies can offer better terms ; in the same way it is believed that Government, without an army of canvassers, would not be able to compete with the companies and the scheme would therefore be a waste of effort that could be applied more profitably in other directions. It is undesirable for Government to have a separate fund for the life-insurances, and equally undesirable to conduct life-insurance without it. Other reasons were also given against the proposal. We think Government can make a better contribution to the provision of life-insurance facilities in less direct ways. The most important of these (after the improvement of public health, for which however it is required) is a radical improvement in the collection and tabulation of vital statistics. The Director of Public Health is exerting himself strenuously in this, and proposals to modify the census tabulation to help have recently been approved by the Government of India for the census of 1931. A difficulty in paying premia is found by persons who cannot pay by cheque. Even when an office of the insurance company collects premia in the same town many people have difficulty in paying in office hours, and even if premia are collected in the evening the inconvenience of going out in the rain during half the year is a great deterrent. Payment of premia by employers who deduct the amount from salary-bills is therefore desirable for employees of all grades in which banking accounts are not usually kept. Employers who can remit by cheque, or have offices or correspondents in places where the insurance companies have agents collecting premia, could all assist their employees in paying premia in this way ; and Government should lead the way.

642. Public Funds in Banks.—At present all government funds (apart from currency reserves) are kept in the Imperial Bank at places where that bank has branches and in the treasuries and

sub-treasuries at other places. All balances of local bodies such as district councils and municipal committees are required to be kept in the same way ; the total of these balances is estimated to be about twenty million rupees, and they play an important part in providing the government with " ways and means " resources, that is to say, the money required to carry on from day to day in the intervals between the large inflows of revenue. If these local-fund balances were deposited in banks the Government of Burma might occasionally feel the need of them to maintain its balances, unless it kept a larger amount of its own moneys in reserve as a sort of liquid resource. On the other hand the local funds have the benefit of the solvency of the government balances. While there is much to be said for this attitude of the Government we believe that a wider view should be taken. If the Government and local-fund balances at places where the Imperial Bank has no office were lodged with banks they would provide a basis for a certain amount of credit instead of lying quite immobilised and useless as they do now. At times Government might need to issue treasury bills to provide ways and means, and thereby would incur interest charges which it does not incur now ; but the net benefit to the country of the increase of credit would be worth more than that. The matter is of particular importance in view of the necessary coincidence noted in paragraph 94 of the season of maximum demand for currency and credit with the season of the principal net collections of Government's revenue. The proper bank to hold the government's own balances is the central bank which controls the currency and the general credit supply ; we shall make proposals with regard to this in Chapter XIX. The local bodies however could be permitted to deposit their balances, with suitable safeguards and other conditions, in local banks, whether joint-stock or co-operative.

643. We recommend Government to adopt a bolder policy, and, subject to the conditions and safeguards noted in paragraph 417,* to allow local funds to make deposits in banks on savings fixed or current account. There is a special difficulty in the case of some local bodies that receive considerable contributions from the Provincial Government ; but a convention could be made as to the dates of the Government's contributions, and if any contribution added to Government's borrowing a reduction corresponding to interest on the contribution should be made. At present not many banks are able to accept the balances on current account ; but we think an experiment should be tried in one or two places with an agreement that it shall be terminated at one year's notice at any time within the first ten years if Government so desires.

644. One result of allowing local bodies to deposit their balances with local banks will be that payments of the salaries of their superior employees by individual cheques will be a simple matter. We recom-

* Subject also in the case of co-operative banks to the dissent of a minority with respect to deposits on current account ; see paragraph 408.

mend that Government should encourage local bodies to adopt this plan, which would have considerable influence in inducing not only those employees but also their friends to open banking accounts. The payment by cheque of other sums, such as payments to contractors and shops, has the same influence. Local bodies in towns in which the treasury balance is kept by the Imperial Bank are already able to pay in this way by cheques drawn on the bank ; but we understand they do not as a rule pay individual salaries by cheque.

.645. Government Loans and Industrial Investment.—It may be asked why, if we advocate the release of the funds of local bodies from government balances, we have recommended earlier in this chapter measures intended to encourage the lending of the money of private persons to Government. Some part of the answer is that the holding of the government and local-fund balances is a matter of ways and means, or short-term money ; while the investments of private persons in government securities, and also (taken in the bulk) their deposits in true savings accounts, are long-term loans to government. But the principal reason is the desirability of offering the highest possible security to the smallest investors, who cannot afford to look for an average return from some safe and some risky investments in trade and industry, but must have all safe. For that reason we have given special attention to the facilities offered to the very small investors in government securities. In the next place investors with rather more resources cannot be expected to risk much of their capital in industrial undertakings at their first introduction to investment practice. They too need the safety of government securities in which to begin the habit of investment. Later on, as experience is acquired, they will as a matter of course be tempted by larger profits to invest elsewhere. Further the great problem is to get the small accumulations of capital, which are owned by the ordinary people of the country, collected together into useful reservoirs. It is better to get this money collected in Government's hands than not at all ; if so collected it does at least set free for other purposes money of larger investors that Government would otherwise have to attract by offering higher rates of interest. Thus the collection of small investments saves interest. It costs more to administer the loans than it would if all investors had large holdings ; but there is still a net benefit to Government and an increase of mobilised capital in the country as a whole. Meanwhile by popularising investments of any kind the way is opened to the popularisation of investment in general. By offering facilities for investments in government securities the danger of a severe set-back through severe losses to those unable to bear them is pushed aside. Haste is made slowly, but all the movement is forwards.

.646. Following out these lines of thought we recommend a general policy of arranging government's borrowings with an eye principally to the smallest investors on the one hand and to insurance companies and banks

and the like, on the other hand, and of leaving the larger private investors to find their place rather in financing agriculture trade and industry.

647. National Thrift Committee—We do not think the recommendations made in this chapter will be very fruitful if nothing further is done. We are strongly of opinion that somebody should have the definite duty of carrying on savings propaganda. Something of the same kind was started in Great Britain in connection with the issues of war-loans ; it persists now as a National Savings Committee guiding a large number of National Savings Associations, which are local associations formed to help their members to invest in the British equivalents of post-office cash-certificates in the most profitable and convenient ways. But at first most of the work to be done in Burma would probably be rather different, and would consist of a slow steady permeation of the public mind with an appreciation of the virtue of saving and with knowledge of the facilities available. There would also be the improvement of those facilities to meet the needs brought to light in the study of saving that would be made. The qualities of the various ways of saving would be taught ; for example the varying uses to an ordinary clerk of a post-office savings-bank account, deposits of various kinds in other banks, post-office cash-certificates, provident-funds, life-insurance, debentures of land-mortgage banks and other forms of investment would be brought out. To larger investors the principles of investment in ordinary shares and the relations of the fluctuations of their yield to the general level of prices would be shown. The media of publication would be judiciously chosen according to the class intended to be reached. For the educated classes small books might be prepared ; but generally the more subtle propaganda of suggestive articles in newspapers and journals, often designed to conceal their origin and propagative character, would be preferred. In Rangoon and perhaps some other large towns the organisation of national savings associations might be tried. Efforts to get employers to join in savings schemes and group-insurance plans for their employees might be made as in Great Britain. Propaganda would include efforts to discourage people from living above their means, and perhaps the Punjab model of co-operative societies whose members support each other in this matter would be adopted. For all this a non-political unpaid National Thrift Committee consisting of persons who could keep it in touch with all classes of the community is required.* It would be best if it could be formed unofficially by public-spirited people and had no connection with Government except by making an application for an annual subscription to its expenses. Other funds should be collected by public subscription. The committee would need a paid chairman or secretary who would be its executive member.

* Mr. Dawson doubted if the proposed committee would be effective but had not time to think out an alternative proposal. Five other members present (four Burman members and the Chairman) were unanimous in the recommendation.

CHAPTER XVII.—LEGISLATION AND ADMINISTRATION.

648. **Definition of "Bank" and "Banker."**— The question of restricting the use of the terms "bank" and "banker" has been raised in England from time to time ; but no law for the purpose has been passed. There are special difficulties as to legislation in England where banking (apart from the right of note-issue) has developed almost entirely without regulation by special laws. But in Burma, where banking has hardly begun, these difficulties are absent. Moreover, the need for protecting the people by law against dubious concerns which ostentatiously adopt the name of *bank* is greater than in England, because the people of Burma are less informed and more credulous in such matters and therefore more likely to be duped.

649. It is, however, not only the public but also the bankers themselves who need protection by definition of the term "banker." Sir John Paget has illustrated this as follows * :—

"As things stand, the bank clerk to whom a crossed cheque is presented over the counter by a professing banker has a complicated question of law and one of fact, on which he has no evidence, to decide. He must at once either pay or dishonour. If he does the first, he may lose all protection and perhaps have to pay twice ; if the second, he may be liable to his customer for damages for injury to credit. In electing which to do, he or the bank manager must (immediately) make up his mind (as to) (1) What is a banker ? and (2) Is the presenting party a banker ? Similarly when a crossed cheque is paid in by a customer the collecting banker is not protected unless the drawee is really a banker."

650. In Burma the risks are very real ; for, notwithstanding judicial decisions to the effect that Chettians "carry on banking business" and the fact that many Chettians describe themselves on signboards and in letter-headings as "bankers," it is extremely doubtful whether in any case a banker paying a crossed cheque over the counter to a Chettian could successfully maintain in a court of law that he had paid it to a "banker" and was therefore entitled to the protection given by the Negotiable Instruments Act for payments made to bankers. Most Chettians receive no deposits and are moneylenders pure and simple. Few issue cheque-books, and these may delay payment of a cheque till the day after presentation. None observes any set business hours or the bank-holidays notified by Government.

651. At present not only the Negotiable Instruments Act but also the Indian Companies Act [sections 4, 136 and 259] the Bankers' Books Evidence Act [section 2 (2)] and the Indian Stamp Act

* Paget's *Law of Banking*, 4th Edition, page 2. Words in brackets added by us to make the sense clearer.

[section 2 (i) and articles 1 and 53 (h) of Schedule I] all use the term *bank* or a derivative, e.g. *business of banking*, without defining the term. Questions on the definition of the term *banker* for these various acts were included in the last chapter of our questionnaire, and a note upon the subject was appended to that chapter.* Eight district committees sent replies ; but the bankers themselves sent none. We understand that the views of the bankers are being communicated to the Central Committee by their offices in Calcutta and Bombay. We also received no reply on this subject from the chambers of commerce.

652. The Royal Commission on Indian Currency and Finance (1926) suggested in Article 1(2) of its report that in India and Burma the term *bank* should be taken to mean :—

- (a) every person (including a firm or company) using “ bank ” or “ banker ” or “ bankers ” in its description or title, and
- (b) every company accepting deposits of money subject to withdrawal by cheque draft or order.

We do not consider this a satisfactory definition for all the four acts mentioned above. We are of opinion that a distinction should be drawn between acts designed to confer privileges and acts designed to protect the public interest, and that the definition in the latter class must necessarily be wider than in the former. Accordingly we shall consider the definition of *banker* separately for each of the four acts mentioned in the preceding paragraph

653. “ Banker ” and the Bankers’ Books Evidence Act, XVIII of 1891.—Section 2 (2) of this act is as follows :—

“ Bank ” and “ Banker ” mean—

- (a) any company carrying on the business of bankers ;
- (b) any partnership or individual to whose books the provisions of this act shall have been extended.

Section 3 of the act recites :—

“ The Local Government may, from time to time, by notification in the official Gazette, extend the provisions of this Act to the books of any partnership or individual *carrying on the business of bankers* within the territories under its administration, and keeping a set of not less than three ordinary account books, namely, a cash-book, a day-book, or journal, and a ledger, and may in like manner rescind any such notification. ”

654. The need for the privileges of this act is particularly felt by bankers who are liable to be called upon to make payments on demand, as this liability makes it necessary in the interests both of banker and customer that the books should always be available for reference at the banker’s place of business. The privilege is granted by the act itself to incorporated bankers without distinction, and may be granted by notification to others who “ carry on the business of bankers ” and keep

* The note is reproduced with the questionnaire in Part C of Volume II of this report.

the prescribed books. The Nattukkottai Chettiar Association has asked that *Chettiars* should be included in the term *banker* for the purposes of this act. Apart, however, from the formidable difficulties of defining *Chettiars* we cannot approve an extension of the act to persons who work under no kind of control and do not publish accounts. Moreover, we do not see how, if this extension were made, any moneylender keeping the prescribed books could reasonably be excluded. We are of opinion that the privilege should be restricted generally to concerns publishing their accounts and employing qualified auditors.

655. We think that if a register of bankers is established under the Negotiable Instruments Act (as is proposed in paragraph 661) the privileges granted by the Bankers' Books Evidence Act should be confined to registered bankers. In the meantime we recommend amendment of the Banker's Books Evidence Act as follows :—

- (1) The substitution for section 2 (2) of the following definition:—
"Bank" and "banker" mean a public company which in the ordinary course of business receives from the public deposits of money on current account subject to payment by cheque or to withdrawal on demand and not intended to be used principally to pay for goods to be supplied or for services to be rendered by the company to the depositors.
- (2) The substitution for section 3 of a provision that the Local Government may, on application by any person (individual partnership or private company) keeping a set of not less than three ordinary account books, namely, a cash book, a day-book or journal and a ledger, declare by notification that such person shall be a banker for the purposes of the act.
- (3) The insertion of a section—
 - (a) requiring every person specially notified as a banker for the purposes of the act to comply with all the provisions relating to publication of statements, accounts, returns and audit which the Indian Companies Act makes for public companies ; and
 - (b) directing the Registrar of Joint Stock Companies (i) to remove forthwith from the list every notified banker who fails to comply with these provisions, (ii) to advertise the removal in the local government's gazette and (iii) to publish periodically in the same gazette a list of notified banks.

We have added the last provision in the definition of *bank* to exclude tradesmen and others who receive deposits from their customers against which the cost of goods and services is to be charged.

656. "**Banker**" and the Indian Stamp Act, II of 1899.—The section in this Act which defines *banker* is 2 (1) which is as follows :—"Banker" includes a bank and any person acting as a bank. The term banker is used in this act only in Article 53 (h) of Schedule I, which gives the banker a privilege, viz. exemption from stamp-duty in

certain cases, *e.g.* when a receipt given by him for money is not expressed to be received from, or by the hands of any other than the person to whom the money is to be accounted for. The exemption as it stands extends to money received on current, savings-bank, fixed deposit or any other accounts; and we do not propose that this exemption should be modified.

657. If the definition proposed for the Bankers' Books Evidence Act were adopted for the Stamp Act, it would deny the privilege of Article 53 (*h*) to many persons who now legitimately enjoy it. On the other hand, as the law now stands, any moneylender, even of a disreputable kind, simply by calling himself a *banker* or claiming to *act as a banker* (whatever that may mean in this act) would be entitled to the exemption. It is not desirable that the door should be open so widely as to admit moneylenders who call themselves bankers and whose fixed deposit business is negligible. On the other hand, it is not possible to exclude people who accept current accounts, though their business in them may be small.

658. We accordingly recommend that the following definition of a *banker* shall be substituted for that now given in section 2 (1) of the Indian Stamp Act :—

“Banker” means a person who in the ordinary course of business receives from the public deposits of money on current account subject to payment by cheque or to withdrawal on demand and not intended to be used principally to pay for goods to be supplied or services to be rendered by the said person to the depositors.

659. “Banker” and Negotiable Instruments Act, XXVI of 1881.—As the provisions of the Negotiable Instruments Act which affect bankers particularly are those relating to bills of exchange and cheques, we have naturally looked for guidance to the United Kingdom and the United States of America which are the countries in which the use of cheques has been most developed. In those countries the meaning of *banker* has developed as the use of cheques has increased.

660. We accept as the best plan for the definition of *banker* in Burma and India for the purposes of the Negotiable Instruments Act the plan of registration, which has been suggested by Sir John Paget, the eminent English authority on banking, and was adopted by the late Dr. Walter Leaf, Chairman of the Westminster Bank, Ltd. Sir John Paget's views are epitomised in the following quotation from his *Law of Banking* * :—

“The only true road to safety both for the public and the banker lies in the scheme, propounded by those best qualified to judge, of an authoritative and conclusive Register of bankers . . . This, completed after investigation by a legally qualified tribunal

and amended by the same as occasion may require. . . . would supply a means of ready reference and prompt decision open to the bank-clerk and public alike."

Dr. Leaf, as President of the Institute of Bankers in London, discussed the matter at a meeting of the Institute in 1920 and said that what was actually needed was a register which could be established without any hard and fast definition of the term *bank*. He proposed that a tribunal should be set up with power to admit applicants or reject them on a wide view of the circumstances of their business. This tribunal was to be representative of government departments and of industry and commerce as well as of existing banks. If such a register were set up, no one would be allowed to use the term of *bank*, or any derivative from it, to describe his business, unless his name was included in the register. These views received support in banking circles in London ; but the bill which was drafted for the purpose of carrying them out was still-born. The register offers " finality where finality is needed and elasticity where experience calls for change. It would not be derogatory to bankers ; for registration is both recognised and adopted in all professions."* There would be no pretence or appearance of guaranteeing the probity and capacity of the registered bankers.

661. We are in entire agreement with these views ; and we recommend that the plan of registration should be adopted in Burma, and that for the purposes of the Negotiable Instruments Act *banker* should be defined as a registered banker. The law providing for registration should require every registered banker to publish accounts, to give information on prescribed heads and to employ auditors of prescribed qualifications. We are of opinion that the tribunal should have powers of investigation so as to enable it to protect the public from ill-considered and dishonest propositions. We think further that it should refuse registration to any concern which proposes to conduct banking business as subsidiary or ancillary to any other business. Such concerns seek deposits to finance their main business ; as they therefore have as a rule only one borrower there is no averaging of risks.

662. Institutions specialising in certain forms of banking business e.g., savings-banks, land-banks, grain-banks, mortgage-banks, co-operative banks, loan-banks, etc., should necessarily find a place in the register, because the use of the term *bank* by such institutions and by the public has gained a currency which makes it expedient to recognize their title to the term. If this view is accepted the register must distinguish between such institutions and banks of the commercial type. It would be necessary to divide the register into two parts ; the first to comprise the commercial type and the second the others. A question of nomenclature arises. If all banks are to be regarded as members of one order the one class might be classified in the register

* Letter by Sir John Paget to the London Institute of Bankers (1920).

as *cheque-banks* to distinguish them from the others. If the term *bank* is to be restricted in the register, the first part may be headed *Banks* and the second *Quasi-Banks*. We should prefer the use of the term *cheque-banks*.

663. We think that when a register of bankers is introduced the tribunal which controls the register should be empowered to disregister any banker, who has wilfully failed to publish the prescribed accounts or to perform any other duties imposed on bankers. To avoid introducing complications through a system of registration devised to simplify the bankers' business, it should be prescribed that a disregistration should not take effect until the next of two prescribed dates in each year. The dates prescribed should be fixed with reference to section 136 of the Indian Companies Act with an interval of six months between them. There would be no harm in allowing an offender to go on with his business until the next regular date. A list of disregistrations should be published at each date in the *Burma Gazette* and all bankers should be expected to look out for that. Presumably some sort of bankers' association would be formed which amongst other activities would keep its members informed of all new registrations and disregistrations and send them corrected lists of registered bankers at intervals. Bankers would thus have no difficulty in knowing exactly at any given time which businesses were included in the register. Government might send out revised lists annually to all bankers as a matter of courtesy without any liability in case any failure to deliver the list to any banker or any error or omission caused loss or inconvenience to anybody.

664. There will necessarily be some delay in working out the details of the registration system. In the meantime it is desirable that bankers should obtain immediate relief from risks to which they are at present daily exposed. We accordingly suggest that as a temporary measure the term "banker" should be defined in the Negotiable Instruments Act so that it might include only :—

- (a) every public company registered under the Indian Companies Act, 1913, which in the ordinary course of its business receives from the public deposits of money on current account subject to payment by cheque or to withdrawal on demand and not intended to be used principally to pay for goods to be supplied or services to be rendered by the company to the depositors ; and
- (b) every corporation formed in pursuance of an act of Parliament or of the Legislative Assembly or of any provincial legislative council or under a royal charter or letters patent which satisfies the conditions prescribed in clause (a) for a public company registered under the Indian Companies Act ; and
- (c) every person who has been notified by Government under section A (see immediately below) as a banker for the purposes of the Act.

Section A to which reference is made in clause (c) of this definition should authorise the local government to notify as a banker for the purposes of the act any person, not covered by clauses (a) and (b), who satisfies the conditions prescribed for a public company in clause (a).

665. We have intentionally refrained from including corporations registered under a foreign law in clauses (a) and (b) of the definition of a *banker* in the last paragraph. This is not because we have thought of imposing any special disabilities upon them * ; but because we think that, in view of the differences in the laws under which alien corporations are registered in their own countries it is better that they should be dealt with by notification under clause (c) of the definition of *banker*. Government should notify as a banker all respectable alien corporations which comply with provisions resembling fairly closely those of the Indian Companies Act with respect to the audit of accounts and the publication of statements and accounts.

666. We are of opinion that no persons who have hitherto been recognised as bankers for the purposes of the Negotiable Instruments Act should be deprived of its privileges, and we recommend that all persons (including private companies and partnerships) who, prior to a prescribed date, have been recognised as bankers for the purposes of this Act by any local association of incorporated bankers should be notified by Government as bankers for the purposes of this Act, and that complete lists of these and of all bankers who satisfy the definition should be made by Government and published as and when the definition becomes operative. Copies of the list should also be distributed to all bankers on the list. It does not seem desirable that a provision analogous to that suggested in item (3) of paragraph 655 for the Bankers' Book Evidence Act should be made ; for, if made, apart from the necessity that bankers will be under of scrutinizing these lists closely from time to time, difficult questions are likely to arise as to when a person ceased to be a banker under the act, and the object of definition, which is to achieve simplicity and certainty, would be defeated. Rules must be made to control the admission of new applicants and to formulate the conditions under which notification should be made which would bring them on to the list. As the ultimate object is to establish a register of bankers the conditions implied are those mentioned in paragraph 660. The measure proposed would provide a convenient aid for starting the register, and bankers would be afforded a relief which it would be unjust to withhold any longer.

667. "**Banker**" and the Indian Companies Act, VII of 1913.— The acts hitherto discussed confer privileges upon bankers ; but the Indian Companies Act imposes obligations and restrictions

* See also paragraph 778.

upon them. Section 4 of the act requires registration under the act whenever more than ten persons join together to carry on the *business of banking*, although as many as twenty may collaborate to carry on other business without such registration. Section 136 (1) requires every limited *banking company* to publish and display at certain periods statements of account in a prescribed form. Section 259 also refers to banking companies to impose an obligation upon certain of them.

668. We are of opinion that the terms *banking company* and *business of banking* should be defined for the purposes of this act, and that the definitions should be in terms so wide as to make it difficult for any undertaking to be, or to pretend to be, a bank without being under the necessity of complying with the obligations and restrictions imposed upon companies by the act. In particular, the definitions should be independent of the register of bankers proposed above.

669. We suggest the following definitions for this act :—

(1) "Business of banking" means the carrying on either as principal business or as subsidiary to another business:—

(a) any business under a name including the word *bank* or any of its derivatives ; or

(b) any business holding itself out in any terms or in any manner to be a "bank" or to do "banking business" ; or

(c) any business recognised as that of a banker for the purposes of the Bankers' Books Evidence Act, 1891, the Indian Stamp Act, 1899, or the Negotiable Instruments Act, 1881 ; or

(d) any business which in its ordinary course comprises :—

(i) the receiving from the public of deposits which are repayable with or without a prescribed period of notice or on demand and are not intended to be used principally to pay for goods to be supplied or for services to be rendered by the receiver to the depositors ; or

(ii) the receiving of deposits from the public on any terms and the lending of money to persons not confined to a closed list.

(2) *Banking Company* means a company which carries on the business of banking as above defined.

670. **Customer.**—The correlative term *customer* stands as much in need of definition as *banker*. The need for the definition arises mainly in connection with (i) a banker's lien and (ii) the protection given to bankers in collecting crossed cheques under section 131 of the Negotiable Instruments Act. There are two conflicting views which have been stated thus :—

(1) To constitute a *customer* there must be some recognizable course or habit of dealing in the nature of regular banking business ; an isolated transaction or a series of transactions not associated with banking is not sufficient.

- (2) Duration is not of the essence of the relationship and payment of a single cheque for collection, although no money was actually drawn, may constitute a test of what is a customer.

The Great Western Railway Co., vs. London & County Bank * (1901) and *Matthews vs. Williams, Brown & Co.* † (1894) favour the first which is the older view ; in the first of these rulings it was held that "there must be some sort of account, either deposit or current, or some similar relation." *Ladbroke vs. Todd* ‡ (1914) and the privy council ruling in *Commissioners of Taxation vs. English, Scottish and Australian Bank* § (1920) favour the second which is the later view.

671. It is in the interests of bankers to accept the later and wider view. But it is not in the interest of the public to do so ; for, if this view is accepted, any thief of a crossed cheque may forge references, persuade a banker to open an account and to accept for credit to it the stolen cheque, draw out the money and disappear. Thus the protection which "crossing" gives to the drawer or endorser of a cheque might easily prove valueless. On the other hand, there would appear to be no good reason why a banker should not obtain protection from a first transaction as well as a series, provided he has not been negligent in any way. Moreover, as it is impossible to say when a course or habit of dealing is sufficiently established, the original view which has steadily lost ground must be rejected as impracticable. We shall deal presently with the question of negligence on the part of the banker in opening an account. Assuming that there has been no such negligence, we consider that a person seeking to open an account becomes a customer, not when money is paid in or a cheque is accepted for collection nor when the first cheque drawn is paid, but when the banker expressly or by implication agrees to honour his cheques. This agreement is generally signified by the delivery of a cheque-book to the customer.

672. Reported cases and the experience of bankers show that the difficulties which arise under section 131 of the Negotiable Instruments Act arise when collections are made for a current account ; no thief would want to open a savings-bank account or a fixed-deposit account with a stolen cheque, as money credited to such accounts would not be withdrawable on demand. Thus it is especially for current accounts that legislation is needed. It is, of course, conceivable that a savings-bank account might be used for the purposes of a current account ; but such cases would be rare and would occur only where the banker permitted frequent withdrawals. The answer to the general question

* *Great Western Railway Co., vs. London & County Bank* (1901 A.C. 414).

† *Matthews vs. Williams, Brown & Co.* (1894) 10 Times L.R. 386.

‡ *Ladbroke vs. Todd* (1914) 30 Times L.R. 433.

§ *Commissioners of Taxation vs. English, Scottish and Australian Bank* (1920 A.C. 683.)

"What is a customer?" must necessarily be wider than the definition that is necessary for our special purpose. The question is of fact rather than of law and must be determined upon the merits of each case. A court would, however, presumably accept the fact that a person has some kind of account as *prima facie* evidence that he is a customer, even if it did not want to go so far as to say that the opening of some account was an indispensable condition.

673. Accordingly we recommend that the term *customer* should be defined in the Negotiable Instruments Act; and we suggest the following definition (advisedly not exhaustive) as satisfying the interests of the public and bankers alike:

Customer *includes* any person with whom the banker has made a contract (express or implied) to honour his cheques or to credit to his account the value of cheques payable to him and delivered to the banker for collection.

674. Enquiries before opening a Current Account.—

There are also unfortunately two conflicting views as to the duty of a banker in making enquiries about a customer before opening his account. As Paget says, "We have one line of authorities to the effect that minute enquiries are absolutely essential, another that they are practically optional." For the former view (1) *Turner vs. London & Provincial Bank*. (2) *Guardians of St. John Hampstead vs. Barclay's Bank* and (3) *Ladbroke vs. Todd* are the main authorities. In the first case a reference was not followed up; in the second the enquiries were held to be perfunctory; in the third no enquiries had been made. For the view that enquiries are optional the authority is *Commissioners of Taxation vs. English, Scottish and Australian Bank* (1920) * where a thief had opened an account with a stolen crossed bearer cheque and had obtained the proceeds. The privy council ruling in this case to the effect that the banker was not guilty of negligence has however been subjected by Sir John Paget to strong criticism in the following terms†:—

"But it is impossible to circumscribe the negligence to the mere receipt of the money. In the interest of the banker the section has been definitely held to cover all preliminary stages of the collection, which it was sought to charge as independent wrongful dealings with the cheque. This necessary liberality of interpretation must be reciprocal: the banker to obtain protection must show that he has not been negligent in *any matter* leading up to the actual payment. Many cases . . . have gone against the banker . . . on the ground that he omitted to make enquiries when the account was opened or to follow them up when made. The Privy Council appears to treat this as a matter of minor importance."

Further all text-book writers are agreed that a banker should not open an account (more particularly a current account) with a person unknown

* 1920 A.C. 683.

† *Legal Decisions affecting Bankers*, Vol. VII, page 222.

to him without first obtaining references from responsible parties as to the proposed customer's respectability and responsibility; and in this view the text-books are supported by *Ladbroke vs. Todd* where the facts were similar to those in the privy council case save that the stolen cheque was an order cheque. The privy council ruling is not binding on English Courts which however are bound by *Ladbroke vs. Todd*. Indian courts on the other hand are bound by the privy council ruling and not by *Ladbroke vs. Todd*. We think the duty of enquiry is one which the banker owes to himself, to his proposed customer and to the public; that clear recognition of this duty would be salutary; and that the failure to perform this duty should be regarded as negligence disentitling the banker to the protection of section 131 of the Negotiable Instruments Act.

675. In view of the doubt which the Privy Council dictum throws on the subject and the dangers to which the public will be exposed if bankers are not under any obligation to make the indicated enquiries, we recommend that to section 131 of the Negotiable Instruments Act the following explanation based on decided cases should be added:—

Explanation :—The failure of a banker to make enquiries or to follow up references with respect to a customer's respectability and responsibility before opening an account for that customer is negligence within the meaning of the section notwithstanding that such failure relates to omissions antecedent to the receipt of payment.

676. **Enquiries before opening a Savings-bank Account.**—Savings-bank accounts are intended to encourage thrift among people of slender resources; cheque-books are not issued for them* and withdrawals are usually subject to restrictions. Thus there seems to be no need for strict enquiries into the respectability of persons seeking to open such accounts, and in fact it does not appear to be the general practice of bankers to make such enquiries. But if a banker who has collected a cheque for a savings-bank account is sued for conversion, the defence that he collected "for a customer" will be of little use if he has to admit he made no enquiries before opening that customer's account. The proposal we have made in the preceding paragraph imposes in the interests of the public the duty of enquiry when collections are made for any account. Bankers would therefore be well advised to make careful preliminary enquiries, even for customers who have only savings-banks accounts, if cheques are to be collected for them.

677. **Crediting as Cash.**—The question as to what is the position of the banker when he credits as cash a cheque received from his customer for collection has been reopened by the decision in *Under-*

* Cheque-books are issued in some cases; see paragraph 617. But that is not the general rule.

wood vs. Barclay's Bank (1924), which appears to be at variance with a decision of the House of Lords in *Sutlers vs. Briggs* (1922). We raised the following question in our questionnaire :—

“Before the Underwood decision, in cases where the banker made no arrangements with his customer as to whether he would honour the customer's cheques against uncleared effects, the credit as cash of open cheques received by the banker for collection made the banker a holder for value. He was therefore (assuming there was no question of a forged indorsement) protected against the true owner. In 1924 the Underwood case put upon the banker the burden of proving (i) that cash was credited and (ii) that the customer might draw at once ; thus in most cases the banker would not be deemed to be a holder for value and would consequently be unprotected against the true owner if it should be found that his customer had not a good title. (See *Legal Decisions affecting Bankers*, Volume III, page 327, *et seq.*) Should legislation be undertaken on account of this decision so as to relieve the banker of the burden it imposes upon him ? Would it be suitable for this purpose to declare that, by crediting as cash a bill or an uncrossed cheque which was not overdue and upon which there were no forged indorsements, a banker shall become a holder for value ? ”

678. The explanation appended to section 131 of the Negotiable Instruments Act corresponds to an English act of 1906, with regard to which Sir John Paget states in *Legal Decisions affecting Bankers* (Volume III, pages 329 and 330) :—

“When the 1906 Act came into force the banker's position seemed consolidated and commanding, if anomalous. The view taken of it . . . was that when a banker credited a crossed cheque as cash he obtained the right of a holder for value while retaining the protection of section 82 (section 131, Negotiable Instruments Act). If he so credited open order cheques, unless there was forged indorsement, or if he so credited open bearer cheques, he was holder for value tantamount in the case of a banker to holder in due course. . . . The banker's position as above defined is now challenged and threatened . . . The matter calls for serious consideration.”

The decision in the Underwood case is regarded by Sir John Paget as disquieting to bankers. We have not had the time to give it the consideration it deserves. So far as we have been able to go into the matter it seems possible that, if Sir John Paget's views were translated into law, the banker's position might be too commanding ; but Sir John Paget is a great authority and we are not at present prepared to differ from him. We are of opinion that the question requires early consideration.

679. **Fraudulent Raising of Cheques.**—Much importance has been attached by bankers to the ruling of the House of Lords in *London Joint Stock Bank, Ltd., vs. Macmillan and Arthur*.^{*} This overruled a long series of erroneous judgments which had been founded on a misapprehension of what should have been the governing principle and

^{*} 1918, A.C.-777 ; 34 T.L.R. 509.

authority. For reasons which are given by Sir Jolin Paget * we are of opinion that the principles enunciated in this authoritative case apply not merely to cheques but also to bills. We recommend that the Macmillan decision should be embodied in an explanation to be added to section 10 of the Negotiable Instruments Act which defines " payment in due course "; and we submit the following draft for the explanation :—

When the manner in which a cheque or bill is drawn and filled in is such as to facilitate fraudulent alteration of the amount of the cheque or bill and such alteration is not apparent and cannot be detected by the exercise of reasonable care and diligence, the banker paying such cheque or bill shall be deemed to have made payment in due course.

680. The Rejected Bill for the Amendment of the Negotiable Instruments Act.—We were specially asked by the Central Committee † to enquire into the following questions :—

- (1) Whether with a view to securing that negotiable instruments fulfil their proper part in Indian commerce, it is necessary to create by law a type of instrument which being originally drawn payable to bearer will always remain payable to bearer.
- (2) Whether legislation designed to secure this end should cover both cheques and other forms of negotiable instruments like hundis ; and
- (3) Whether in case such legislation is recommended as desirable there is any need for protection in the case of hundis analogous to that provided by 'crossing' in the case of bearer cheques.

681. We have not succeeded in obtaining much useful evidence on these matters. The views of the Burma Chamber of Commerce are those of the Associated Chambers and have already been published. We have sought to obtain the views of the Burma-Indian, the Burmese and Chinese Chambers of Commerce. The Burma-Indian Chamber is not in favour of the creation of a type of instrument which being originally drawn payable to bearer should be declared by law to be always payable to bearer irrespective of restrictive endorsements. We are nevertheless satisfied that there is a strong demand for, and in the interests of banking and commerce there is need for, a type of instrument which, being originally expressed on its face to be payable to bearer, shall not have its tenor changed by anything written on its back.

682. A draft bill proposed to the Legislative Assembly that endorsements should be allowed only on the face of the instrument ; but as this proposal was severely criticised the bill was withdrawn, and a second bill (rejected in September 1929) was introduced. The Statement of Objects and Reasons appended to the second draft bill said that according to a ruling by the Bombay High Court an effect of section 50 of the

* *Law of Banking*, 4th edition, pages 177 and 331.

† See paragraph 9.

Negotiable Instruments Act with the *Explanation* which is appended to it is that a bearer bill can be legally changed to an order bill by endorsement ; and that accordingly this second bill had been drafted to provide that negotiable instruments, including cheques and bills of exchange, which are expressed on the face of them as drawn to bearer, shall not in any circumstances lose through indorsement their character of bearer instruments. Following this object section 2 of the draft bill was drafted as follows :—

In sub-section (1) of section 13 of the Negotiable Instruments Act, 1881 (hereinafter referred to as the said Act):—

(a) For *Explanation (i)* the following shall be substituted, namely :—

Explanation (i).—A promissory note bill of exchange or cheque is payable to order which is expressed by the maker or drawer thereof to be so payable or to be payable to a particular person and which does not contain words prohibiting transfer or indicating an intention that it shall not be transferable and on which the only or last indorsement, if any, is an indorsement in full ; and

(b) in *Explanation (ii)*, after the word “expressed” the words “by the maker or drawer thereof” shall be inserted.

These provisions however went beyond the declared intentions of the draft bill, which were limited to the restoration of a well-established practice and to bringing the Indian law into line with the English law.

683. Unfortunately there was a misapprehension as to the English law in the minds of some who asked for the Indian law to be changed ; *e.g.*, the Burma Chamber of Commerce described the English law as providing that once a cheque becomes a bearer cheque it must always remain a bearer cheque. This however is not an accurate description of the English law. In England it is unnecessary to examine endorsements on a bearer cheque, because the English law is clear to the effect that the tenor of a bearer cheque cannot be changed by *endorsements*. The Indian law (section 50, Negotiable Instruments Act) on the other hand, as the Bombay ruling emphasized, made such change possible by endorsement. But according to both the English law and (since 1929) the Indian law (Negotiable Instruments Amendment Act No. VIII of 1919) the striking out of the word “bearer” on the *face* of a cheque, with or without the addition of the word “order,” even though this alteration is not initialled by the drawer, does not restrict the negotiability of the cheque. The cheque so altered is now treated as a cheque negotiable to the order of the payee. *And it is not only the drawer who may make this alteration* ; the payee or even any holder may make it, and he may even do so without the drawer’s verification.* The law seems to be quite clear and unambiguous as to the right of the holder to

* See Sheldon’s *Practice and Law of Banking*, 2nd edition, page 9 ; Hart’s *Law of Banking*, 3rd edition, page 240 ; Chalmers’s *Digest of the Law of Bills of Exchange*, 8th edition, page 249. See also *Questions on Banking Practice* published by the Council of the Institute of Bankers, page 239, Q. 684.

alter the tenor of a cheque in this way. The view apparently taken is that such an alteration is not material and cannot prejudice the drawer.*

684. There appears to be no reason why the payee of a bearer cheque should not make this alteration. If he does so the cheque becomes an order cheque and he cannot negotiate it without endorsement. He can cash it without endorsement if he can prove his identity ; but bankers would ordinarily require the cheque to be endorsed before payment is made. If the payee does not make the alteration, and a subsequent holder to whom it has been negotiated as a bearer cheque without any endorsement wishes to make it, a difficulty arises. In this case, a banker would not pay unless, before the cheque was presented for payment, what purported to be the payee's endorsement appeared on the cheque. There seems to be no reason why the holder should not strike out the words "or bearer" to protect himself against theft between the time he receives the cheque and the time when he presents it to a bank for payment ; for under section 85 of the Negotiable Instruments Act a banker is not concerned to enquire whether the signature of the payee is a genuine one. But a cheque so altered and endorsed can not be endorsed and passed on to another person ; as then the writing of the payee's name by the holder would make the payee liable to subsequent holders and might therefore be forgery. But in the former case, when he is only seeking payment of the cheque from the banker, the writing of the payee's name by the true owner does not appear to be forgery, for no fraud or dishonesty is involved. If the cheque is originally issued as a bearer cheque, but has been endorsed by the payee, no difficulty of course arises ; any subsequent holder may then make the alteration. The amendment of explanations (1) and (2) of section 13 of the Negotiable Instruments Act in accordance with the second bill would have deprived the payee and the holder of these rights, and would have gone further than was necessary or justifiable.

685. We are of opinion (i) that the law should not be altered to the extent proposed in clauses 2 (a) and (b) of the draft bill of September 1929, (ii) that as the law now stands the payee and the holder of a cheque or hundi payable to bearer is not precluded from protecting himself against loss of his property by theft by making it a payable-to-order security, and (iii) that the main objections taken to the bill in the Legislative Assembly will be met if the proposed amendments (2) (a) and (b) are left out and the Statement of Object and Reasons for the Amendment Act is limited to the statement that the bill is intended to bring the law on this subject into line with the English law.

686. Inasmuch as the payee or holder of a hundi is not precluded from making the very same alterations as the payee or holder of a

* A text book on the Indian Negotiable Instruments Act with commentaries by Bhashyam and Adiga, 3rd edition, page 348 (f), cites this view with approval.

cheque, we see no reason why hundis should be adversely affected by the proposal to bring the law into line with English law, *i.e.*, *endorsement* should not operate to change the terms of the bearer instrument (whether cheque or hundi) into an order instrument. But if there is apprehension that through the proposed change in the law the special instructions which a bearer hundi may contain on its *face* will be ignored, legislation should provide for the exclusion of the hundi from the operation of this measure. There is no reason why the proposed change in the law in respect of other negotiable instruments should be rejected only because of consequences to hundis which, if necessary, can be specially provided for.

687. Protection of Banker paying Order Cheques.—

The Indian Negotiable Instruments Act appears to be out of harmony with the English law in an important matter which relates to the protection given to the paying banker under section 85 of the Act. This section recites : "Where a cheque payable to order purports to be endorsed by or on behalf of the payee, the drawee is discharged by payment in due course." The section as it stands does not protect a banker paying an order cheque if any endorsement other than that of the original payee is forged : for, having regard to the definition of "payee" in section 7 and of "endorser" in section 16, "payee" does not include "endorser".* Moreover, section 51 indicates that it is not the intention of the Act that the term "endorsee" should include "payee."† The same reasoning which applies to the endorsement of the payee applies also to other endorsements. The position of the paying banker in India seem therefore to be far from satisfactory, as he cannot be expected to know the signatures of all endorsees of cheques presented to him for payment. The corresponding section (60) of the Bills of Exchange Act gives the banker this necessary protection. The case of *Sulleman Hussein vs. The New Oriental Banking Corporation, Limited*, § decided by the Bombay High Court as long ago as 1890 denied to the banker the protection which the English law gives ; but no effort seems to have been made up to date to put this matter right.‡ We recommend therefore that the protection given in section 85 should be extended so as to include endorsements subsequent to that of the payee.

688. The Definition of Negligence.—Sir John Paget has shown in his *Law of Banking* (4th edition, page 248) the importance of having a definition of negligence for the purposes of the Bills of Exchange Act. The same arguments apply to the Negotiable Instru-

* See Bhashyam and Adiga *Negotiable Instruments Act*, 3rd edition, page 353.

† See *Chalmers's Negotiable Instruments Act in British India*, 4th edition, by A. Eggar, page 250.

‡ See Tannan's *Banking Law and Practice in India*, pages 153-5.

§ (1890) I.L.R. 15 Bom. 267.

ments Act of India. We recommend that in the latter Act a definition of "negligence" should be inserted in Chapter II and we propose the following definition for general application in addition to the explanation we have proposed (in paragraph 675) to add to section 131 for a special matter :—

"Negligence" means an omission to do anything which a reasonable business-man would do taking surrounding circumstances into consideration.

689. **The Status of the Pass-Book.**—Indian Law unfortunately does not impose any duty upon the customer to examine his pass-book though it may be taken out by him or sent to him for no other purpose. In this respect Indian law follows English law. The subject is ably and exhaustively examined by Sir John Paget in his *Law of Banking* in which book he devotes a whole chapter to the topic. If the above view is correct, viz., that there is no obligation upon the customer to look at his pass-book, the assumptions of acquiescence in course of business, charges for interest and commission and the like cannot safely be made from mere entries in the pass-book. The law on this subject in America may be studied with advantage.

690. The American view is stated by Sir John Paget as follows* :—

The Supreme Court held that the sending of the pass-book by the customer to be written up and returned with the vouchers is a demand on his part to know what the bank claims to be the state of his account ; that the return of the book with the vouchers is the answer to that demand and imports a request by the bank that the depositor will, in proper time, examine the account so rendered and either sanction or repudiate it. The Court then quote the report to the English Court of Chancery in *Devaynes v. Noble* (1 Merivale, 530) and say that that report, made in 1816, is equally applicable now, both in England and America, and continue : "The depositor cannot, therefore, without injustice to the bank, omit all examination of his account when thus rendered at his request. His failure to make it or have it made, within a reasonable time after opportunity given for that purpose, is inconsistent with the object for which he obtains and uses a pass-book." Later on the Court say : "Without impugning the general rule that an account rendered, which has become an account stated, is open to correction for mistake or fraud, other principles come into operation where a party to a stated account, who is under a duty, from the usages of business or otherwise, to examine it within a reasonable time after having an opportunity to do so, and give timely notice of his objections thereto, neglects altogether to make such examination himself or to have it made in good faith by another for him ; by reason of which negligence the other

* Paget's *Law of Banking*, 4th edition, page 324.

party, relying upon the account as having been acquiesced in or approved, has failed to take steps for his protection, which he could and would have taken had such notice been given. In other words, parties to a stated account may be estopped by their conduct from questioning its conclusiveness."

691. Sir John Paget sums up as follows :—

"The simpler method seems to be to adhere to the principle of the pass-book being a settled account, to insist on the duty of the customer to examine and compare it with the returned cheques and counterfoils, or to have that duty performed under effective supervision, and treat the omission of such duty as negligence or imputed knowledge, estopping the customer from reopening the account if the bank were shown to have been prejudiced thereby ; such prejudice consisting in the deprivation of opportunity of self-protection or the loss of any remedy, civil or criminal, against the offender, it being immaterial whether the civil remedy would have been likely to produce satisfactory results or not." †

692. We recommend that the definition of "negligence" which we have proposed in paragraph 688 should have the following appended to it as an explanation :—

The failure of a customer to examine his pass-book sent to him or taken out by him and to bring to the banker's notice within a reasonable time any entries in his account to which objection should be taken by him constitutes negligence.

In the absence of any change of position on the part of the depositor, the banker who has mistakenly credited his customer's account may probably as the law now stands rectify the error, within a reasonable time. ‡ The explanation which we propose here would relieve bankers from liability for damages at the suit of a depositor whose cheque had been dishonoured as the result of a mistake which he could have discovered if he had taken the trouble to check his pass-book when this was sent to him. It would not entitle the banker to recover the money paid out by mistake if the depositor has changed his position. "The converse case also holds good. No amount of acquiescence on the part of the customer could justify a bank in withholding from him money really received for his credit, but omitted in the credit items of the pass-book" §.

693. **Burmese Bills of Exchange.**—An amendment of the Negotiable Instruments Act, 1881, to make it applicable to bills of exchange drawn in Burmese has already been proposed in paragraph 350. In paragraph 351 we have also proposed excluding bills in Burmese (or any other language indigenous to Burma) from the term *hundi*.

† *Law of Banking*, 4th edition, page 310.

‡ *Commercial Bank of Scotland v. Rhind*, 3 Macq. House of Lords 643.

§ See Paget's *Law of Banking*, 4th edition, page 295.

694. **Usurious Loans Act.**—The Royal Commission on Agriculture in India came to the conclusion on evidence taken by it that the Usurious Loans Act, 1918, is practically a dead letter and recommended (in Article 365 of its report) that in every province (a) an enquiry should be made into the causes of the failure to utilise the Act, (b) adequate steps should be taken to ensure its application in future, and (c) a special report on its working should be included in the annual reports on the administration of civil justice. The Government of Burma accordingly asked the High Court of Judicature, Rangoon, to consider the recommendations of the Royal Commission and to advise it with respect to them. The High Court was still engaged in its enquiry when the Banking Enquiry was started; but at the Government of Burma's request it expedited the matter so that we could have the benefit of its report which it completed on the 2nd October.

695. The report of the High Court (which is given as an appendix in the second volume of this report) was to the effect that (a) the subordinate courts in Burma do as a general rule make use of the provisions of the Usurious Loans Act in all cases where dependants claim the protection of the act; (b) dependants very seldom raise the plea of excessive interest, and the courts are reluctant to take upon themselves of their own motion the burden of making enquiry into the origin of the loan with a view to granting relief to the debtor. It pointed out also that the majority of money suits and a considerable proportion of simple mortgage suits are decided *ex parte* or on confession, and that in such cases the courts have little opportunity to reopen the accounts. The report said that judges of subordinate courts naturally shirk the difficult and troublesome task of going into accounts which have already been closed, and consequently the provisions of the act are rarely used save for the simple purpose of reducing the rate of interest charged. The High Court further expressed the view that the number of cases in which the provisions of the Usurious Loans Act could with advantage be applied are not very numerous, and said it was not prepared to state that insufficient use is being generally made of the act. Finally the High Court deprecated the proposal that a special report on the working of the Usurious Loans Act should be included in the Annual Report on the Administration of Civil Justice, as the amount of work involved in maintaining special registers to provide statistics would in their opinion be out of all proportion to their usefulness or importance.

696. We had the benefit of the High Court's report when drafting our questionnaire on this subject, and we have received replies to the questions concerning it from 27 district committees. There is a general consensus of opinion on the points that the provisions of the act are not widely known and that debtors seldom ask for the act to be applied when sued for debt. In the few cases where the act has been invoked

the debtors have presumably been represented or inspired by lawyers. On the point as to whether the civil courts apply the act of their own motion there is a distinct preponderance of evidence which goes to show that unless asked to do so they take no action. (It is well to recall here that, apart from insolvency proceedings, the act can only be invoked in a suit brought by the creditor.) The evidence as to whether there are many cases in which the act should palpably be applied but is not is conflicting, the "ayes" and "noes" being almost evenly balanced.

697. We think that behind the difficulties brought out by the High Court and our evidence there is a root difficulty in determining when the rate of interest is excessive, and that this difficulty is particularly great in Burma because of the high rates of interest in vogue here. We think some definite guidance should be given to the courts to help them decide this point ; and we believe this could be done by making a table of moderately high rates, and laying upon creditors in cases of higher rates the burden of proving the rate was reasonable in the circumstances of the case. We find that a provision of this kind exists in the Ceylon Money Lending Ordinance of 1918, which has been in force for twelve years and, according to information given us by Chettiers, is successful. We have noted also that the High Court at Rangoon mentioned in its report that it did not consider a rate of 2 to 3 per cent. per mensem excessive for unsecured loans in Burma.

698. If the courts have such guidance to help them decide when a rate of interest is excessive we think the permissive nature of section 3 (1) of the act should be changed to make it peremptory, while still limiting the application of the act by retaining the present definition of "Suit to which this Act applies" in section 2 (3).

699. Accordingly we recommend three amendments of section 3 of the act as set out below. We have drafted the amendments as though the act were a Burma act ; in the event of political separation of Burma from India this will be the case, while if separation does not take place the course to be followed will depend upon the desire of other provinces to have the same amendment ; we do not think it necessary for us to discuss the alternative draftings that have occurred to us for the latter case. The amendments for a Burma act are as follows. —

- (1) In sub-section (1) for the words : *the Court may exercise all or any of the following powers, namely, may* substitute the following words :—

The court shall take such of the following steps as may be necessary to make the interest reasonable and the transaction fair in accordance with the provisions of sub-section (2), namely :—

- (2) Renumber clause (d) of sub-section (2) as sub-section (3) and renumber the present sub-sections (3), (4) and (5) accordingly.

(3) For sub-section (2) of section 3 so curtailed, *substitute* the following :—

- (a) The court shall presume that any rates of interest charged above the rates given in Schedule A of this act are excessive unless the creditor or any person claiming through him shall satisfy the court that on a consideration of all the circumstances of the case the rate charged was in fact reasonable.
- (b) In considering whether interest is excessive under this section, the court shall take into account, besides all other circumstances relevant to the reasonableness of the rate of interest charged, the risk of the loan and any amounts charged or paid, whether in money or in kind, for expenses, inquiries, fines, bonuses, premia, renewals or any other charges, the periods at which compound interest (if it is charged) is calculated, and the total advantage which may reasonably be taken to have been expected from the transaction.
- (c) In considering the question of risk the court shall have regard to the risk incurred as it appeared or must be taken to have appeared to the creditor when making the loan and shall take into account the value of the security, if any, the financial condition of the debtor and the result of any previous transactions of the debtor, by way of loan so far as the same were known, or must be taken to have been known, to the creditor at that time.

Schedule A.

I. Unsecured loans to be repaid in agricultural produce :— (For the purposes of this section of the table the value of produce will be the value as proved by evidence of similar produce marketed in the same locality in the month of February next preceding the making of the contract.)

- (1) In the case of loans of an amount up to and including Rs. 100, fifty per centum per annum.
- (2) In the case of loans of an amount over Rs. 100 and up to and including Rs. 250, forty per centum per annum.
- (3) In the case of loans over Rs. 250, thirty per centum per annum.

II. All other unsecured loans and loans secured by crops, produce, cattle and agricultural implements :—

- (1) In the case of loans of an amount up to and including Rs. 250, thirty-six per centum per annum.
- (2) In the case of loans of over Rs. 250, thirty per centum per annum.

III. Loans secured by movable property of a description other than those described in II above or by immovable property :—

- (1) In the case of loans of an amount up to and including Rs. 500, twenty-four per centum per annum.
- (2) In the case of loans of an amount over Rs. 500, twenty one per centum per annum.

700. Having regard to the evidence which is before us we do not consider that the amendments proposed above will materially affect the credit of borrowers or that they will encourage the repudiation of contracts. Lenders will probably be more careful to select their borrowers, and the rates of interest charged will probably be lower than now.

701. If our recommendation to make sub-section 3 (1) of the act peremptory is adopted, the discussion preliminary to the amendment and the subsequent practical application of the act will help to disperse the present general ignorance of the act's provisions; but the amendment should still be widely advertised before it comes into force. Also if sub-section 3 (1) is to remain permissive as now, steps should be taken to advertise the provisions of the act. The *Headman's Gazette* might include an article upon it once a year, and all newspapers especially those circulating amongst Burmans and Indians, might be asked to keep the act before the eyes of the public by reporting a reasonable number of cases in which the act is applied, and by occasional articles and editorials upon different aspects of it.

702. With the act amended as we propose there would be less objection to the carrying out of the recommendation of the Royal Commission on Agriculture to the effect that a special report on the working of the Usurious Loans Act should be included in the Annual Reports on the Administration of Civil Justice. We therefore recommend, in case of such amendment, further consideration whether this recommendation of the Royal Commission cannot be carried out to such an extent as will keep Government informed of the uses and abuses of the act as guidance for any further action which may come to be necessary.

703. A minor matter brought to our notice is the failure of some judicial officers to appreciate the definition of "interest" in section 2 of the act, where the term is made to include any sum agreed to be paid in excess of the sum actually lent. We suggest that the High Court should take steps to instruct judicial officers on this point.

704. **Licensing of Moneylenders.**—In all countries measures have been taken to regulate the business of moneylending, because the power which moneylenders have over their borrowers has been so apt to be abused. We are of opinion that the time for such regulation is not ripe in Burma as a whole. But it is desirable to have registration and some control of moneylenders as soon as circumstances permit; and a beginning should be made by an act of a simple nature to control professional moneylenders in places notified for the purpose by the Local Government. Initially only Rangoon should be notified. The act should not apply to all moneylenders, but only to persons who hold themselves out to lend to all and sundry; amongst

these no difference should be made on the score of the amount of capital employed. Before proposing a formal definition of *moneylender* it is advisable, having a general notion of what is intended by the term, to see what provisions are proposed for the act.

705. The principal provisions of the act should be as follows : Loans should be defined as in the Usurious Loans Act. No contract for the loan of money by a professional moneylender should be enforceable in the courts unless the lender is licensed under the act, and the terms of the contract are expressed in a document signed by the borrower, and a copy of that document was given to the borrower at the time of signing it. The amount which is to be repaid as the principal money and the net amount actually given to the borrower on account of the loan should be stated in the document. No interest should be recoverable unless the rate or the total amount recoverable as interest is stated in the document. If the loan is not repayable on demand the document should also state the date or dates when the loan or any part of it is repayable. No oral agreement should be admissible as evidence to prove any term of the contract which has been omitted from the document and requires any enhancement of the total payments due from the borrower under the written contract, or requires any payment due under the written contract to be made at a date earlier than the date (if any) specified for it in the document. All charges, apart from interest and expenses imposed by law, should be prohibited. All forms of touting for loans and circularising should be prohibited, and advertising should be restricted to advertisements in newspapers and other ordinary periodical publications. Every borrower should be entitled to demand a written statement of his account at any time not less than three months after the last previous occasion. The language in which contracts for loans and statements of accounts are written should be that agreed upon by the lender and borrower ; but the borrower should have the right to require them to be in one of the languages prescribed for the purpose by notification for each town when the act is extended to it. English figures should however be permitted in every case in which the borrower asks for them. In Rangoon the prescribed languages might be Burmese and English.

706. No provisions with regard to compound interest or rates of interest should be made in the act ; these should be left for control by the Usurious Loans Act. Neither should the keeping of accounts in any special form or language be required, nor any right given to the borrower to inspect the lender's accounts.

707. Licenses should be issued annually by the deputy commissioner, who should have the power to refuse only in specified circumstances, including the case of a person whose previous license has been cancelled. The fee for a license should not exceed five rupees.

708. For the application of these provisions we propose that a professional moneylender should be defined as a person who, being or holding himself out to be ready and willing to lend money to any person approved by him as a borrower, does not belong to any of the following classes, namely :—

- (a) bankers ;
- (b) bill-brokers ;
- (c) pawnbrokers ;
- (d) savings banks, co-operative banks and societies, land-mortgage banks, industrial banks and loan associations for house-purchase and building ;
- (e) persons lending money in the course of and for the purposes of a business of insurance or other business carried on by them without having the lending of money for a primary object.

Banker should be defined in the Act as a banker under the Negotiable Instruments Act ; *bill-broker* should be defined as a person who buys negotiable instruments as a regular business ; *pawnbroker* should be defined as a pawnbroker under the Pawnbrokers Act. We particularly recommend the use of the term *professional moneylender* in the act instead of the single word *moneylender* ; misconception as to the scope of the act is apt to arise otherwise.

709. **The Indian Insolvency Acts.**—*Cheques drawn by an insolvent.*—Section 51 of the Presidency Towns Insolvency Act (Act III of 1909) makes the official assignee's title relate back to the time of the commission of the act of insolvency on which an order of adjudication is made, or, if there are more acts than one, to the time of the first act of insolvency proved to have been committed within the three months next preceding the date of the presentation of the petition. Section 28 clause (7) of the Provincial Insolvency Act (Act V of 1920) states that an order of adjudication relates back to the date of presentation of the petition on which it is made ; the period is thus narrower in this act. The general result of the doctrine of relation back, so far as it affects a banker paying cheques drawn by an insolvent, is that the official assignee can reclaim from the bank any funds of the debtor paid out by the bank after the commencement of the insolvency, unless the payment falls within the definition of certain protected transactions. Section 57 of the Presidency Towns Insolvency Act and Section 55 of the Provincial Insolvency Act are identical and provide protection to *bona fide* transactions as against the official assignee in respect of :—

- (a) any payment by the insolvent to any of his creditors ;
- (b) any payment or delivery to the insolvent ;
- (c) any transfer by the insolvent for valuable consideration ; or
- (d) any contract or dealing by or with the insolvent for valuable consideration.

The protection is subject to the proviso that the transaction takes place before the date of the order of adjudication, and that the person with whom such transaction takes place has not at the time notice of the presentation of any insolvency petition by or against the debtor.

710 Clause (b) above covers a banker's payments to an insolvent, but it does not cover the case of the banker paying away an insolvent's money on his cheques to third parties. Neither does clause (d) help the banker in this respect. If the payee of a cheque is himself protected there may be no difficulty ; but if the payee has notice of the petition the banker will still be liable to account to the official assignee for the amount paid on the cheque even if he has not had such notice. The position is highly prejudicial to bankers and it has compelled bankers to adopt the practice of informing a customer, on hearing of an available act of insolvency committed by him, that cheques payable to himself only will be cashed and that cheques payable to third parties will not. But, "the case in which the banker gets to know of either an act of insolvency on the part of, or a petition against, his customer are necessarily rare ; under present-day conditions he is frequently kept in the dark as to a receiving order having been made until after he has by paying the customer's cheques incurred further liabilities to the trustee." * Thus although by the practice described the banker can sometimes reduce his losses he cannot always prevent them entirely ; and in the circumstances this exposure to risk is unfair to him.

711. We recommend that to section 57 of the Presidency Insolvency Act, 1909, and to section 55 of the Provincial Insolvency Act, 1920, there should be added the following explanation :—

A payment made by a banker, without notice of the presentation of an insolvency petition by a customer and before the date of the order of adjudication, to honour the customer's cheques whether payable to the customer himself or to third parties is a payment within the meaning of clause (b).

712. *Property acquired by a bankrupt after adjudication.*—The law in India and Burma as to property acquired after adjudication is not explicitly declared by statute, but has been summarised by K. J. Rustomji † with reference to clause (4) of section 28 of the Provincial Insolvency Act as follows :—

Although, by the words of this section, it would seem that after-acquired property vests in the receiver in the same way as property acquired before adjudication, various limitations have been established. First, as to all such property, the receiver gets no rights, unless he intervenes before the bankrupt has alienated it in favour of an assignee who takes it in good faith and for value. Next, as to all such property as consists of personal earnings, the receiver is only entitled to the excess over what is necessary for the support of the bankrupt and his family.

* *Law of Banking*, by Paget, 4th edition, page 52.

† *Law and Practice in insolvency and bankruptcy*, 2nd edition 1927, pages 150-152.

Under the provisions of the English Bankruptcy Acts property acquired by the bankrupt after adjudication is vested in the receiver By a long series of decisions it is now settled that, although the property is vested in the receiver, "until the receiver intervenes" all transactions by a bankrupt after his bankruptcy "with any person dealing with the bankrupt *bona fide* and for value," in respect of his after-acquired property, "whether with or without knowledge of the bankruptcy, are valid against the receiver."* In other words, until the receiver has intervened the property remains vested in the bankrupt ; but from the moment that the receiver intervenes , "the property vests in the receiver absolutely, and can no longer be recovered by or dealt with by the bankrupt." According to *Cohen v. Mitchell*† there is a period of time—namely, before any intervention by the receiver—during which the bankrupt's transactions (with regard to after-acquired property), if *bona fide* and for value, are valid against the receiver, and the latter cannot impeach them.

In Rangoon, however, the learned judges (Rutledge, C. J. and Maung Ba, J.) have declined to follow the rule laid down in *Cohen v. Mitchell*, and have held that as, under section 28 clause (4) of the Provincial Insolvency Act, all property which is acquired by or devolves on the insolvent after the date of the order of adjudication and before his discharge *forthwith* vests in the receiver, any transfer of such property by the insolvent even to a person acting *bona fide* for value with or without knowledge of bankruptcy is void as against the receiver. [The Rangoon Judges explained their view as follows †:—]

"In *Cohen v. Mitchell* and a long series of cases following it, the courts modified the words of the statute on apparent grounds of convenience by postponing the vesting in the receiver until he had intervened. It seems to us that the insertion of the word 'forthwith' by the Legislature in section 28, clause (4) was to sweep away the court's attempt to postpone the vesting. In view of the specific and clear words of the sub-section we are unable to apply the principle of *Cohen v. Mitchell* to the present case, as to do so, in our opinion, would be to nullify the express direction of the Legislature. Hard cases may, no doubt, arise where the court or the receiver has taken no action and property has exchanged hands and been acquired by *bona fide* transferees without notice of the insolvency. But the remedy does not lie with the courts but rather with the Legislature."‡

It may be stated however that the exposition of the law as laid down in *Cohen v. Mitchell* has since received the highest judicial confirmation and may be regarded as classical. The correctness of the decision of the learned judges of the Rangoon High Court is therefore open to doubt.

* *Cohen v. Mitchell*, 1890, 25 Q.B.D. 262.

† Words in these square brackets have been interpolated here by the Burma Banking Enquiry Committee.

* *Ma Phaw v. Maung Ba Thaw*, 4 Ran. 25

713. The English law on the subject is given by section 47 of the Bankruptcy Act, 1914, which (omitting one paragraph irrelevant to the present discussion) is as follows :—

- (1) All transactions by a bankrupt with any person dealing with him *bona fide* and for value, in respect of property, whether real or personal, acquired by the bankrupt after the adjudication, shall, if completed before any intervention by the trustee, be valid against the trustee, and any estate or interest in such property which by virtue of this Act is vested in the trustee shall determine and pass in such manner and to such extent as may be required for giving effect to any such transaction.

For the purposes of this sub-section, the receipt of any money, security or negotiable instrument from, or by the order or direction of, a bankrupt by his banker, and any payment and any delivery of any security or negotiable instrument made to, or by the order or direction of, a bankrupt by his banker, shall be deemed to be a transaction by the bankrupt with such banker dealing with him for value.

- (2) Where a banker has ascertained that a person having an account with him is an undischarged bankrupt, then, unless the banker is satisfied that the account is on behalf of some other person, it shall be his duty forthwith to inform the trustee in the bankruptcy or the Board of Trade of the existence of the account, and thereafter he shall not make any payments out of the account, except under an order of the court or in accordance with instructions from the trustee in the bankruptcy, unless by the expiration of one month from the date of giving the information no instructions have been received from the trustee.

In practice the protection afforded by sub-section (1) is not very useful, as a banker has no means of knowing whether property or funds passed to him by an undischarged bankrupt have been acquired after adjudication. But a possible course open to the banker (as suggested by Sir John Paget) is to permit the bankrupt who has informed him of his position to open an account with a nominal amount of property acquired after adjudication ; the banker then communicates with the trustee and some arrangement is perhaps arrived at, or if the trustee remains quiescent for a month operations may proceed on a larger scale.

714. We recommend that the provisions of section 47 of the English Bankruptcy Act, 1914, with such modifications as may seem desirable, should be introduced into both the Indian Insolvency Acts, and that such other amendments should be made in these acts as may be necessary to give full effect to these provisions.

715. *Protection of banker against a receiving order.*—Bankers in England have had serious cause of complaint in the administration of bankruptcy law owing to the fact that they are not always able to ascertain that a receiving-order (equivalent in India and Burma to an

order of adjudication) has been made. This is more particularly so if the court, in the interests of the debtor, suspends or postpones publication of the advertisement of the receiving-order in the official gazette. The banker has even been deprived of protection although he has searched the official and other gazettes. The injustice of this position has in some measure been recognised in England ; for section 4 of the Bankruptcy (Amendment) Act, 1926, has the following provision :—

Where any money or property of a bankrupt has on or after the date of the receiving order, but before notice thereof has been gazetted in the prescribed manner, been paid or transferred by a person having possession of it to some other person, and the payment or transfer is under the provisions of the principal act void as against the trustee in the bankruptcy, then, if the person by whom the payment or transfer was made proves that when it was made he had not had notice of the receiving order, any right of recovery which the trustee may have against him in respect of the money or property shall not be enforced by any legal proceedings except where and in so far as the court is satisfied that it is not reasonably practicable for the trustee to recover in respect of the money or property or some part thereof from the person to whom it was paid or transferred.

The result of this section is that the banker is protected only if the trustee can recover the money paid from the person who received the payment ; otherwise the banker must pay.

716. We recommend that a provision similar to that set out in the previous paragraph should be made also in both the Indian Insolvency Acts.

717. Delays in Recoveries in Civil Courts.—General.—The cost of all finance is necessarily increased by any delays the lender is likely to experience in case it should be necessary for him to apply to a court to recover his loan. It is desirable therefore to reduce such delays as far as possible. Before going on to deal with delays in the specific cases of money-suits and mortgage-suits and sales of immovable property we have to draw attention to a remedy for the delays caused by a defendant's resort to obstructive courses. These delays occur in suits of all kinds and are not restricted to suits between lenders and borrowers, although our interest is particularly in this class. Section 35A of the Civil Procedure Code gives courts power to award compensatory costs where a claim is made or objections are raised that are vexatious or false to the knowledge of the party making them. This section, even if freely used by original courts, does not help where the parties confine themselves merely to obstruction, which is much more common. A remedy for this would be to revise the system of costs to advocates and pleaders. Even without such revision the power given to all courts under para. 8 (3) of the Lower Burma Courts Manual to award daily costs after the first day's hearing in addition to

the *ad valorem* scale fee, if freely exercised in cases of obstruction, would have a salutary effect. The power to do so is seldom, if ever, exercised by subordinate courts. The High Court of Rangoon usually does award such costs, and we are of opinion that subordinate courts should by instruction be encouraged to do so. If the courts did exercise this power, defendants who abuse the process of the courts, waste the time of honest litigants and put them to unnecessary trouble and expense, would be effectively discouraged.

718. *Money-Suits*.—Various district committees have estimated periods varying from six months to one year as the average time needed to recover in a civil court money due on a promissory note, and various suggestions for reducing this time have been made by district committees, the Nattukkottai Chettiars' Association and others. We think considerable benefit could be obtained by the extension of the scope of Order 37 of the Civil Procedure Code and by making the order apply to more courts. This order permits the use of a summary procedure in suits upon bills of exchange, hundis or promissory-notes; but in Burma it applies only to the High Court in Rangoon and to the district courts in Moulmein and Akyab.

719. We recommend that the power to use the summary procedure of Order 37 should be conferred upon all district courts in Burma and upon all subdivisional and township courts in the Pegu and Irrawaddy divisions and in the Akyab, Amherst and Mandalay districts. For such an extension we think the safeguards provided in Order 37 are adequate.

720. We further recommend that for the High Court and for all district courts the scope of Order 37 should be extended as in Bombay to include certain other suits in which a summary procedure is suitable as well as those just now mentioned. The High Court of Bombay, exercising its powers under section 122 of the Code, has made the extension in the following terms:—

all suits in which the plaintiff seeks only to recover a debt or liquidated demand in money payable by the defendant with or without interest, arising on a contract express or implied, or on an enactment where the sum sought to be recovered is a fixed sum of money or in the nature of a debt other than a penalty, or on a guarantee, where the claim against the principal is in respect of a debt or a liquidated demand only.

Under Article 5 of the Limitation Act (as amended by Act XXX of 1925) suits under Order 37 must be filed within one year from the date when the money becomes payable. Our proposal would therefore enable decrees in the courts mentioned to be obtained by the summary procedure of Order 37 in all cases of crop-loans, whether evidenced by promissory-notes or not, so long as they were suits for money or a liquidated demand. We think there is no danger in such an

extension to district courts, particularly 'as the extension to courts of the same grade in Akyab and Moulmein was made at least thirty years ago.

721. *Mortgage-suits*.—Estimates by our witnesses of the time taken to obtain a preliminary decree are generally between three and six months; but the Nattukkottai Chettiars' Association estimates eighteen months for Rangoon, and the same estimate was under for Pegu by a group of Chettiars there. Amongst the suggestions of measures to reduce this time the following seem worthy of consideration:—

- (a) An increase in judicial officers ;
- (b) Further separation of the judicial from the executive branch of government service ;
- (c) Special attention of the High Court to courts in which delays are above the average ;
- (d) The employment of better process-servers and such increase of pay for them as may be necessary to achieve this;
- (e) A stricter scrutiny of written statements ;
- (f) The issue of fewer summonses ;
- (g) Shorter adjournments.

We think it will be sufficient to inform the High Court of Judicature of Rangoon that district committees and other witnesses attach importance to these points.

722. The principal delay in mortgage-suits is the period of six months allowed for redemption after the preliminary decree has been passed. A number of witnesses including the Nattukkottai Chettiars' Association have suggested reduction of this period to three months. Redemption during the six months is rare. As a rule the mortgagor takes no steps until the six months have passed ; then he applies for a further postponement. If there is any real hope that he will ever be able to find the money or to put forward a reasonable scheme for the discharge of the debt by mortgage or private sale, such hope should be apparent when the preliminary decree is passed. No reasonable creditor would be disposed to adopt a recalcitrant attitude in the face of any proposition which would avoid a court sale and the risk of finding a large amount of his capital locked up in immovable property. If a creditor is unreasonable the debtor can still seek the protection of the court by an extension of the time after showing the court what prospect he has of making use of the extension. During the six months interest on the amount of the decree is accumulating at the rate mentioned in the mortgage-deed, and judgment-debtors are frequently impelled to delay against their real interests by a natural reluctance to recognise that there is no hope of escaping the unpleasantness of the surrender of their property. It should be remembered too that a debtor knows in advance the probability that a decree will be passed against him. We think that a period of two months is generally

sufficient for the debtor to see what he can do, that it is rare for any use to be made of the other four months of the present period, and that it is generally a mistaken kindness to the debtor to let him incur interest for so long as six months. As we have pointed out in paragraph 182 the provision for an interval of six months is already circumvented to some extent by taking a promissory-note for part of the loan; but the lender still has unnecessary risk which causes an unnecessary enhancement of the rate of interest. We accordingly recommend that the period should be reduced to two months.

723. *Sales of immovable property.*—When application is made for sale of immovable property in execution of a decree, whether mortgage or other, the decree-holder has to supply particulars of the property, the revenue payable thereon, the incumbrances to which it is liable and “every other thing which the court considers material for a purchaser to know in order to judge of the nature and value of the property.” In the High Court he has also to supply (i) an abstract of title, (ii) an affidavit of search in the registration-office for incumbrances, (iii) particulars as to who is in possession or occupancy of the premises, and (iv) particulars of the tenancy or terms on which any person is in possession or occupation. The preparation of these particulars often involves considerable research and labour; but there is no reason why the work should not be done before the expiration of the period fixed in the preliminary decree for payment. The proclamation cannot be drawn up until the particulars have been communicated to the judgment-debtor and he has been allowed to object. If the judgment-debtor has been legally represented in the suit, the notice can be served on the advocate and there is no occasion for more than a week’s delay. But if the suit has gone by default the service of the notice on the judgment-debtor may take considerable time, and the notice may be returned unserved more than once before it reaches him. If a notice were not issued there would be danger in some cases that the judgment-debtor would seek to upset the sale on such a ground as material misdescription; but we think the decree-holder in cases which have gone by default should be allowed to take this risk if he likes. Accordingly we recommend that Sub-Rule (2) of Rule 66 of Order 21 should be amended to give decree-holders of suits which have gone by default an option whether the notice shall be issued to the judgment-debtor or not. At the time of sale the decree-holder’s choice should be announced.

724. *Interest pendente lite in money-suits from date of suit to decree.*—Section 34 of the Civil Procedure Code leaves it to the discretion of the court in a suit for the payment of money to allow or disallow interest on the amount decreed from the date of suit to the date of the decree; this discretion is not excluded notwithstanding that a fixed rate is mentioned in the contract as payable up to realization. In Burma the general practice seems to be to disallow the interest altogether, although

some courts allow it at the contract rate if claimed ; it is impossible without special enquiry to know what really is the general practice as there is certainly not uniformity. If the matter rests on contract, there are authorities to the effect that the court would be exercising a proper discretion if it allowed interest at the contract rate. But it is doubtful if the refusal of a court to do this could be rectified on appeal. The result is that it pays a perfectly solvent debtor to allow the claim against him to go into court and to set up a false defence with a view to protracting litigation. What he loses in costs may be insignificant when compared to what he saves in interest. Secondly, courts do not discriminate between (a) bankers and moneylenders who look only to interest for their remuneration and (b) others who might be well satisfied with a decree for their claim without interest, as the claim itself ordinarily includes the profit aimed at ; nor between bankers and other lenders seeking a fair remuneration and usurious lenders. The law as it now stands imposes an unnecessary hardship upon lenders who do business fairly and upon reasonable terms.

725. We recommend that the law should be amended so as to withdraw the court's power to alter the contract rate of interest from date of suit to date of decree in money-suits where there is a clear contract that interest should be paid till date of realization at the contract rate. The provisions of the Usurious Loans Act will still safeguard the court's power to interfere in cases where the contract is harsh and unconscionable.

726. *Interest from date of decree till realization.*—Section 34 of the Civil Procedure Code gives the court discretion to allow interest after the date of the decree at such rate as the court deems reasonable on the aggregate sum adjudged (*i.e.* the principal sum plus interest due prior to suit plus interest from date of suit to date of decree). The general practice in Burma seems to be to disallow interest after decree ; but the practice cannot be stated with certainty as it is not uniform. The discretion of the court, as regards the power to grant interest subsequent to the decree, should (we think) for various and obvious reasons be retained ; one reason is that if the contract rate were awarded as a matter of right the decree-holder might unnecessarily protract the execution proceedings. But (a) execution proceedings are more often protracted by the judgment-debtor than by the decree-holder ; (b) there is great disparity between the court-rate of interest (6 per cent in India and 9 per cent in Burma) and the market-rate, and (c) there is great variation of the market-rate between town and country.

727. Accordingly we recommend that instructions should be issued by the High Court to all subordinate courts, pointing out that the rate of 9 per cent should not be regarded as a maximum rate, but that a rate should be determined which, having regard to all circumstances of the case, may be in the opinion of the court fair and reasonable.

728. Transfer of Property Act to be redrafted.—We think the use of land as a basis of credit could be greatly facilitated by a radical and comprehensive revision of the Transfer of Property Act, cutting away a mass of unnecessary matter and exposing the basic principles in clear language with reference to the actual conditions and without perpetuating the special conditions resulting from feudal history out of which grew the English law which is the basis of the present act. It may be noted that in England the old law on the subject has already been swept away by the Law of Property Act, 1925, with the object we have in view for Burma. If Burma is separated politically from India the new act should take the form of a Law of Immoveable Property leaving the land-revenue and related laws to be purely fiscal enactments.

729. Power of Sale.—At the time of passing the Transfer of Property Act 1882 it was deemed advisable for the power to insert in mortgages a provision authorising the mortgagee to sell the property without the intervention of the court to be restricted to certain towns, of which the only one in Burma was Rangoon.* In 1904 the power was extended to Moulmein Bassein and Akyab. Clause (c) of section 34 of the Transfer of Property (Amendment) Act 1929 has extended the recognition of a power of sale to any other town or area which the Governor-General by notification may specify. The legislature has thus recognised the desirability of allowing wider application of the principle, and some proposals for extension have in fact been made. The Nattukkottai Chettiers' Association in particular has asked for extension to all Burma. Some other witnesses have deprecated any extension beyond the four towns where the power is now recognised. A proposal to give co-operative land-mortgage banks the right to insert a power of sale in their mortgage-deeds was made last year in Madras and disapproved by the Government of Burma ; but that proposal involved unfair discrimination.

730. The conditions which now obtain in the Pegu and Irrawaddy divisions, the Akyab district and Mandalay town are different from the conditions which obtained in rural India or rural Burma at the time of the passing of the Transfer of Property Act of 1882. The Pegu and Irrawaddy divisions are the most advanced parts of the country, and agriculture in most parts of them is highly industrialised ; the Chettiar community has probably something between 300 and 350 million rupees lent on mortgages of agricultural land in them, while further advances on such security have been made in the Irrawaddy division by a joint-stock bank which has been operating since 1914 and has eight offices in the division. It is in the Pegu and Irrawaddy divisions too that the lack of sentimental attachment to land, and the regard for

* The cases described in clauses (a) and (b) of sub-section (1) of section 69 of the Transfer of Property Act are ignored throughout this discussion.

land only as a source of profit and social distinction are most noticeable. The rapid extension of the rice-milling industry in and near the delta towns has made them part of a Greater Rangoon, and there are probably some towns in the delta which are as far advanced in matters concerning the present discussion as Rangoon was in 1882, while some are more advanced than Akyab Moulmein or Bassein were in 1904 when the Transfer of Property Act first allowed a power of sale for mortgages made in these towns. That power has now been available in Rangoon for 48 years and in the other ports for 26 years, and no abuse seems to have arisen. Agriculture in the Akyab district is also highly commercialised, and there are several joint-stock moneylending companies in Akyab town. In Mandalay town there are branches of the Imperial Bank of India and of the National Bank of India.

731. We think it would be unwise to extend the recognition of a power of sale to all Burma at once, as some have suggested. But extension experimentally to the areas described in the last paragraph is advisable, as it would help banks and other lenders in granting credit, and would probably have an influence towards reducing the rates of interest.

732. We accordingly recommend that the whole of the Pegu and Irrawaddy divisions and Akyab district and Mandalay town should be notified by the Governor-General under section 69 (1) (c) of the Transfer of Property Act (as amended by Act XX of 1929).

733. **Mortgages by Deposit of Title-deeds.**—Mortgages by deposit of title-deeds are an instance of the law being compelled to yield to the exigencies of commerce. The attempt persistently made formerly in England to confine within narrow limits the doctrine that a deposit of title-deeds was sufficient to create a mortgage failed and had to be given up. "In commercial transactions it may be frequently necessary to raise money on a sudden, before an opportunity can be afforded of investigating the title-deeds and preparing the mortgage. Expediency, therefore, as well as necessity, has contributed to establish the general doctrine, although it may not altogether be in consistency with the statute"*. The doctrine has to this day, notwithstanding the recent land-registration laws of England, resisted the attacks upon it. In India the doctrine has long been accepted; and although public registration is required for all deeds of transfer of land, these mortgages are permitted subject to the restriction that they can be made only in certain towns named in the last clause of section 59 of the Transfer of Property Act, 1882. The towns named are the principal ports, those in Burma being Rangoon, Moulmein, Bassein and Akyab.

* Per Lord Abinger, 1838, *Keys v. Williams*, 3 Young and Collyer, Exchequer Rolls 60-61.

734. It is possible that the intention of the legislature was to confine mortgages by deposit of title-deeds to property situate within the ports named in the clause mentioned ; but if so, the wording of the clause was loose. The courts have extended the application of the clause to property situate outside the ports, provided only that the deposit of the title-deeds takes place within one of them. Speculation as to what was the intention of the legislature on this point is no longer of interest ; for the Transfer of Property Act, 1882 has recently been amended by Act LXX of 1929, in which section 58 (f) confirms the interpretation of the courts. But, if a deposit of title-deeds, when made with the intention of creating a security, suffices to create a mortgage, there can not be any difference in principle whether the deposit takes place inside or outside certain special towns. The exigencies of commerce are not served by compelling a trader who wants money urgently and does business, say, in Pyapôn and whose property is situated in Pyapôn, to go to Rangoon to deposit his title-deeds ; yet as the law stands this is what he must do. In fact the above illustration demonstrates that the extension by law of the principle of a mortgage by deposit of title-deeds has not been conceived on logical lines.

735. A change which the new Act XX of 1929 makes in the law respecting mortgages by deposit of title-deeds is the provision conferring power upon the Governor-General to add by notification to the list of towns in which such mortgages may be effected.

736. Act XX of 1929 was supplemented by Act XXI of 1929 which includes provisions amending sections 48 and 49 of the Indian Registration Act, 1908. Section 48 now declares that a mortgage by deposit of title-deeds shall take effect against any subsequently executed registered mortgage-deed relating to the same property. Section 49 now permits the receiving as evidence, for the purpose of proving any collateral transaction, of any unregistered document affecting immovable property and required by law to be registered. These two amendments of the Registration Act do not effect any change in the law ; they simply affirm the existing case-law and remove any doubts that may have continued to exist. They set the seal of statute on an important difference from the English law on this subject ; for under the English law a prior equitable mortgagee is postponed to a subsequent legal mortgagee who has not had notice of the earlier encumbrance.

737. The advantages of a mortgage by deposit of title-deeds are (1) convenience, (2) avoidance of expense and (3) avoidance of publicity. The absence of formality and the ease and celerity with which money may be raised and urgently required, contribute to convenience and are of great importance to bankers and business-men ; of no less general importance is the saving in stamp-fees. It frequently happens

in the districts that a mortgagee takes advantage of the fact that a mortgagor who can get better terms from another lender is deterred from effecting the substitution of a new mortgagee owing to the expense and inconvenience of executing a fresh registered mortgage-deed. The third advantage is, in the view of some borrowers, worth more than the other advantages put together ; for borrowers sometimes travel great distances and submit to large expenditure rather than register. But from the point of view of the business-man this is a doubtful advantage ; the secrecy of previous transactions constitutes a real danger.

738. The disadvantages of mortgages by deposit of title-deeds are,* (1) that such mortgages are opposed to the policy of the registration law ; (2) that they lead to the evasion of the stamp-duty ; (3) that they are at variance with the principle of making the system of transfer of immovable property, as far as possible, a system of public transfer ; and (4) that, when the amount secured is Rs. 100 or upwards, they are inconsistent with the general rule in Section 59 of the Transfer of Property Act requiring a written instrument.

739. According to decided cases it is not necessary that all the title-deeds, or even all the material title-deeds, should be deposited ; it is sufficient if the deeds deposited are material evidence of title. Decided cases also show that under the term *title-deeds* are included not only the muniments of title, properly so called, but also agreements for purchase, receipts of purchase-money and copies of deeds where the originals are not forthcoming. To the disadvantages above enumerated, one must therefore add that much opportunity is given for fraud. Owing to the absence of registration there is no satisfactory protection of lenders against fraudulent raising of money from two persons on the same property. A bank or moneylender who lends without getting possession of adequate documents of title is taking a great risk ; but registered mortgages are frequently and even necessarily made without the production of title-deeds, the mortgagor stating (generally with truth) that there are none or that they have been lost or destroyed. Indeed, it is rather the rule than the exception for mortgages to be so made when they relate to property situate outside Rangoon and other large towns. But a mortgage accepted by the mortgagee in good faith and without notice of a prior encumbrance, though registered, does not, as has been shown, take effect against a prior mortgage by deposit of title-deeds to another party. Secondly, a registered mortgagee, who, though in possession of all the essential title-deeds, has omitted to obtain some document furnishing material evidence of title, might find that this document has been made the basis of a fraudulent and collusive claim for priority ; and as no memorandum is permitted at the time of deposit it might be exceedingly difficult to disprove the alleged date of deposit. Thus, the

* Per Whitley Stokes, Law Commissioner ; see Report of Select Committee dated 19th February 1879, para. 21.

registered mortgagee, however careful he may be, may be defeated by a mortgagee who had only accepted a deposit of title-deeds, even when the former's mortgage is prior in point of time. No adequate security is afforded by the registration of deeds ; and, if wide extension is given to mortgages by deposit of title-deeds without proper safeguards, the registration law might be brought into disrepute and confidence in registered mortgages as security for advances might be weakened or even destroyed.

740. We asked in our questionnaire (Article 1103) whether the power to make a mortgage by delivery of title-deeds should be extended beyond the four towns of Rangoon, Moulmein, Bessein and Akyab. Five witnesses have advised against the extension, one of them giving as his reason that it would lead to an increase of litigation ; fifteen approve extension, nine of them suggesting extension to all Burma (though one says it will not be used much) while three would still restrict to towns, one to municipalities, one to large municipalities and one to district headquarters. Mr. A. M. M. Vellayan Chettiar who is an active member of one of the largest Chettiar firms in Burma, made enquiries on the matter for us from 9 Chettiers and 12 other professional moneylenders in various places in Burma, and reported * that all were in favour of extension to all Burma ; but he himself thought mortgages by deposit of title-deeds should be confined to the ports, as such mortgages are intended for commercial use. The Burma-Indian Chamber of Commerce asked for extension to all Burma. The Deputy Commissioner, Tavoy (Mr. A. J. S. White, I.C.S.,) advocated the extension to all towns, subject to every mortgage being reported to the registration office, where a record of the date of the mortgage, the names of the parties, the amount of money secured and the rate of interest would be made in a register by the registering officer and attested by the parties to the mortgage, who would have to attend personally for the purpose.

741. Our own views had meanwhile developed on much the same lines as Mr. White's. We came to think that, especially since the new Act XX of 1929 has affirmed the status of mortgages by deposit of title-deeds, the law with respect to the power to make such mortgages as it now stands is defective and requires a safeguard ; at the same time we thought that if this safeguard could be provided wider extension should be given to the principle.

742. The necessary safeguard will be provided if, before the close of the next day of business in the offices of registration of deeds, the mortgagee gives to the local sub-registrar of deeds a notice in duplicate stating ; (1) the date of the mortgage ; (2) the place where it was made ; (3) the names and addresses of the parties, including the full postal address of the mortgagee ; (4) the amount of the principal money ; (5)

* See the record of his enquiries under " Survey IV—*Lenders in Selected Towns* in the second volume of this report.

the rate of interest ; (6) a description of the property in accordance with the existing rules for registered deeds of mortgage. The Burma-Indian Chamber of Commerce suggests that the amount of the principal money should not be disclosed in the notice ; we are provisionally of opinion that it would be more satisfactory to state it, but we leave the point for further discussion. The sub-registrar should give an acknowledgment for the notice to both parties and should state therein the date or dates on which the notice was received and registered by him as well as the date of giving the acknowledgments. Registration should be effected on the day of receipt if received before noon, and not later than the next day if received after noon. The sub-registrar should file one copy of the notice and index it on the lines of the present Registration Index II, and should send the other copy to the sub-registrar at district headquarters to do the same on behalf of the registrar, so that there would be a record both at the district headquarters and at the sub-district headquarters. (At district headquarters only a single copy of the notice need be given.) Notice given within the prescribed time should protect against a subsequent mortgage however made ; if the notice is given late the protection should be valid only against mortgages made after the receipt* of the notice. On request by the mortgagor at any time after discharge of the mortgage, the mortgagee should be bound to give notice of the discharge to either the sub-registrar at district headquarters or the local sub-registrar whose sub-district includes the property. This notice should be attached to the original notices filed in the registration offices and recorded against the original entries in the indexes. Thus any person contemplating the acceptance of a mortgage of the same property will always be able to discover whether a valid mortgage by deposit of title-deeds which would have priority over a new registered mortgage has been made.

* 743. A fee of Rs. 5 might be charged for the original registration without additional charge for registering the notice of discharge ; the fee would be payable of course by the mortgagee, who must give the notice and will ordinarily recover the fee from the mortgagor.

744. The mortgagee should be permitted to give the notices of mortgage and of discharge by registered post if he so desires. The sending of a false notice should be made a criminal offence. Provision should also be made for the appropriate variation of the procedure and of the fee for cases where property in more than one registration sub-district, or outside the district in which the transaction occurs, is concerned. Except in Rangoon, transactions made outside the district in which the land is situate would be rare if the arrangement were in force at all

*It might be preferable to substitute "registration" here for "receipt." The sending of the notice by post (as provided in the next paragraph but one) is optional and those who use this channel might be required to accept the risks to which it is exposed. Perhaps too the date of the post-mark could be used. This matter can be settled after the general principle has been accepted.

sub-district headquarters, because then deposits of deeds would naturally be made in the local town where the borrower would be known and have credit and the property would be known.

745. Further the duration of a mortgage by deposit of title-deeds should be limited. This method of making a mortgage is provided on account of the exigencies of commerce for temporary loans and to permit a long-term loan to be given without delay while the permanent mortgage-deed is being prepared. For these purposes the mortgage by deposit of title-deeds needs only to be valid for a moderate period. Further it is undesirable that the ordinary registration books should lack evidence of a long-standing mortgage, and that the special registers of mortgages by deposit of title-deeds should need to be searched for a long period when a title is being investigated. If a time limit is fixed there need be nothing to prevent renewal of the transaction on expiry of the period. We think the period fixed should be one year from the date of the deposit.

746. With the safeguard of registration and limitation to one year the proposal to extend the power to make mortgages by deposit of title-deeds wears a different aspect. On the one hand the dangers seem to be guarded against. On the other hand an important class of borrowers, taking loans on the security of land for purposes of trade or industry (e.g. paddy-millers), would be benefited. At present a borrower who wishes to transfer to a different lender is in a weak position, because such a transfer involves him in stamp-duties and registration-fees. If the security were a mortgage by deposit of title-deeds the transfer would be facilitated, and a good borrower, who made regular payments on his loan, could often induce the lender to charge him a lower rate of interest rather than lose his custom. Land-mortgage banks too would be assisted in expediting the issue of loans ; the limitation of period will make a mortgage by deposit of deeds inconvenient for sub-mortgaging to the trustees for debenture-holders or to a central land-mortgage bank, but this plan of sub-mortgaging has been set aside in Burma already for other reasons. The liability to delay in issuing loans is one of the difficulties that land-mortgage banks have to meet, and aid in preventing this would be useful.

747. One point more remains to be considered. The Transfer of Property (Amendment) Act, XX of 1929, authorises extension of the privilege to any *town* ; and as *town* is nowhere defined for the purposes of that act no difficulty would arise in extending to any considerable residential centre. But there is always a likelihood that, to save the bother and expense of travelling to a selected town and also the bother of registering a transaction effected elsewhere, the parties will agree to pretend that they effected the transaction at a selected town without actually doing so. The only location in the matter which is certain is the location of the land. Really therefore the extension should be to

whole districts subject to provision for registration being made at the headquarters of the district and of its registration sub-districts. But as this would require amendment of an act passed only a few months ago we have proposed extension to selected towns. In that case consideration of the subterfuge described requires that the selection should include all the towns in a compact area rather than take the largest towns throughout Burma. If however Burma is separated politically from India it will be possible to amend the act to permit extension to any region in Burma whether such extension suits the conditions of other provinces or not.

748. *Recommendation.*—We recommend accordingly that as a cautious beginning the power to make mortgages by deposit of title-deeds should be extended to the headquarters of all registration sub-districts in the Pegu and Irrawaddy divisions, subject to the provisions for registration and for limitation of period described above. We recommend further that Act XX of 1929 should be amended at the earliest convenience by substituting "region" for "town" in the clause permitting such extensions, and that extension should then be made to the whole of the Pegu and Irrawaddy divisions unless experience of the effects of the extension to towns has revealed objections not seen now. Really this further extension is likely to prove essential to the success of the partial extension which alone is possible now.

749. *Special consideration for the four ports.*—At the four ports of Rangoon, Moulmein, Bassein and Akyab mortgages are now made by mere deposit of title-deeds without any registration and without any limitation of the period of the mortgage. In the highly developed commercial life of these towns it is often desirable to give security for a short time only, and protection against defects of title is more easily obtained for property in those towns than for property elsewhere. We think however that even in those towns our proposals would not only give no difficulty in practice but would confer a protection worth the small cost and trouble they would involve. Banks would not find serious inconvenience in practice because they would naturally have, for reporting to the sub-registrar, printed forms requiring only the minimum of entries. Accordingly we think the proposed conditions for registration and limitation of the period of the mortgage should be imposed in these towns also.

750. If however these restrictions are not adopted for these four towns the power to make mortgages by deposit of title-deeds without the restrictions should be confined in each of those towns to mortgages concerned only with property situate within it, *i.e.* within certain defined areas, which would naturally be the municipality and such other associated areas (if any) as might be proper. It is essential that even when made within those towns, mortgages by deposit of title-deeds

of property outside the towns should be registered in some way so as to determine their priority and to protect a prospective registered mortgagee.

751. Registration of Title in Land.—Land Registration may be described as a service provided by the state for assisting a purchaser or a mortgagee in his enquires as to his vendor's or mortgagor's title previously to completing the transaction. There are two ways in which the necessary assurance can be obtained : (1) private investigation of title aided by state registration of deeds, (2) state registration of title. The first method is used in India and Burma. The purchaser or mortgagee has to satisfy himself by an exhaustive examination of all deeds, marriages, heirships, documents and events by which the property has been conveyed, mortgaged, leased, or transmitted during a considerable period of time, so as to leave no loop-hole for an adverse claim. The system is complicated, expensive and unsatisfactory ; in America and some other countries it has been found necessary to supplement it by the insurance of title undertaken by agencies unconnected with the state. The other method is state registration of title, often spoken of as the Torrens system. A register is kept in which the owners of the land are entered, and there is a government guarantee that the title to the land is in the registered owner. Land-certificates are issued to the registered owners, and no valid transaction concerning any land can be made except through the register and on production of the certificate. All transactions creating or affecting any interest in land have to be registered, including mortgages and leases and not merely sales. Transactions affecting each separate estate are collected under a separate head, and an accurate account is kept, generally by means of a map, of the parcels of which each such estate is composed. An authoritative summary is made as each transaction occurs of the subsisting rights of all parties in relation to the land itself. This method is used in Germany, Austria, Australia, New Zealand and nearly the whole of Canada ; since 1897 it has been in course of establishment in England and Wales. In Australia all the registries pay their way ; insurance funds were established to provide compensation for errors, and these funds are now very large while the claims they have had to meet have been insignificant.

752. The system of registration of title simplifies, expedites and cheapens the investigation of title and yields reliable results. It is strongly advocated for Burma by the Nattukkottai Chettiars' Association, which states that the system is in force in Malaya. The advisability of introducing it into Burma was considered about twelve years ago and rejected chiefly on the ground that sufficiently reliable records could not be maintained at reasonable cost. There may also be justification for the view that, as Buddhist law permits so many persons

besides the person ostensibly in possession to hold interests in land registration of title is not practicable in Burma unless the Buddhist law is itself modified. A system of registration of title would be of use to all who give credit on the security of land, and especially to those lending on agricultural land ; it would be of great help to land-mortgage and other banks.

753. We recommend that the question should be re-examined to see whether a system of registration of title, perhaps incomplete initially in some respects, could not be devised for experiment in two of the more advanced districts. We suggest that although the land-records are maintained for fiscal purposes, and perhaps unsuited to be the basis of registration of title, the converse relation might be considered ; the cost of a register of title might be partially recouped if the assessment-roll could be prepared from it.

754. **Landholders' Certificates.**—The procedure in most districts of Lower Burma for the issue of landholder's certificates * is unnecessarily expensive, and thus unduly obstructs the granting of credit. Applicants are frequently asked to file copies of the relevant parts of the assessment-roll for each of the last twelve years ; then the Superintendent of Land Records is asked to report, and on his report the decision is given. Since the Superintendent of Land Records sees the original maps there is no need to file any copies except two copies of the map for the last year, to be used afterwards to attach to the certificate and the office copy. These are sufficient to identify the land, and the expense of making copies of earlier maps should be avoided by charging only a moderate fee, say four annas per acre with a minimum of Rs. 5 for each present-day kwin concerned, for the certificate of the Superintendent of Land Records. As revenue-surveyors now use the same map for more than one year the work of searching is diminishing. Payment of revenue every year may be assumed if the maps show the land occupied every year without change of name. Proof of continuity of possession thus requires only proof that all sales and gifts were duly effected by registered deed and that other transfers were by succession. To facilitate investigation of this matter applicants should be required to give a statement of all transfers and transmissions (if any) during the twelve years, and the Superintendent of Land Records should note the name of the assessee of each year if there has been any change in the twelve years.

755. **Registration of 'lis pendens'.**—The Nattukkottai Chettiers' Association has drawn our attention to another difficulty under the present system of registration of deeds. Particular emphasis is laid

* These are certificates that the "landholder's title" described in paragraph 47 has been acquired.

on the fact that there may be orders and judgments of courts operating as a charge on immovable property and not to be traced in registration offices ; they ask that it should be provided in such cases that, if a memorandum of the suit or proceeding is not left with the registrar and registered, the doctrine of *lis pendens* which would invalidate dealings with the subject matter of the suit by subsequent *bonâ fide* purchasers or mortgagees for value, who have not had notice of the suit or proceeding, should not apply. The essence of the doctrine of *lis pendens* is that he who during the pendency of a suit purchases or accepts a mortgage of any part of the subject-matter is held bound by a decree that may be made in that suit against the person from whom he derives title. Thus an innocent purchaser unaware of the suit may lose all the money advanced by him. But this doctrine, which has been imported from England, was modified in England by statute in 1839 ; section 7 of 2 and 3 Vict. Chapter XI provides that *lis pendens* will not affect purchasers or mortgagees without notice unless it is registered and re-registered every five years. Provision is made by 23 and 24 Vict. Chapter 115 section 2 for the entry and issue of certificates of satisfaction or discharge of *lis pendens* on the filing of acknowledgment or order of Court for vacating registration in case the court is satisfied that litigation is not prosecuted *bonâ fide*. These registers are open to search by intending purchasers on payment of a small fee. Section 52 of the Transfer of Property Act relates to *lis pendens* and was amended in some points in 1929 ; but it still does not provide any relief to *bonâ fide* purchasers for value. The above modifications of the law in England have not been introduced into India or Burma, where the law is as it was in England before the passing of the 1839 statute. We are of opinion that the risk of hardship to *bonâ fide* transferees for value without notice *pendente lite* ought to be diminished by requiring a *lis pendens* to be registered ; and we recommend that legislation should be undertaken in India and Burma to modify the law on the lines of the English statutes referred to above.

756. Searches in Registration Offices.—In Madras any person may apply to an office of registration of deeds for a search to be made on his behalf to discover all the registered incumbrances resting upon a specified piece of property or all documents executed by or in favour of a specified person. A certificate of encumbrances or a list of documents discovered is given in prescribed form to the applicant, the forms of certificate and list bearing declarations that the Registration Department incurs no responsibility for any errors in the certificate or list given. Rules and instructions relating to the system have been copied from the Madras Registration Manual and reproduced in the second volume of this report. The Inspector-General of Registration in Madras, when consulted about the matter, said the system works well ; few omissions

in the certificates or lists have been brought to notice, and civil courts habitually rely upon the certificates in suits relating to holdings of land above Rs. 100 in value. The Nattukkottai Chettiers' Association and others have asked for the system to be introduced into Burma. The last Inspector-General of Registration, Burma, stated that he saw no objection to trying the system in Burma but he would like divisional commissioners to be consulted first, both as to the advisability of introducing the scheme and as to the fees to be charged.

757. We suggest that the scheme should be tried first in sub-registrars' offices at district headquarters in the Pegu and Irrawaddy divisions, where the registration staffs are generally likely to be able to carry out the work, and at Mandalay and the headquarters of one or two other districts in Upper Burma. After two years' experience extension could be considered. The fees might be at double the present rates for search fees but without any maximum limit.

758. Registration Offices.—A difficulty still experienced in some parts of the country arises from the frequent absences from their headquarters of registration officers who are also township officers and must go on tour to carry out their various duties. Even when these officers are able to publish notice of their expected tours some time in advance, parties coming from distant villages cannot generally learn the days on which the officer proposes to be at headquarters, and must commonly make one journey at least without finding him. Moreover the officer is often called away unexpectedly. In the delta and all the busiest registration-offices the difficulty has been overcome by the appointment of non-official joint sub-registrars ; but these have not been appointed in some other offices where a separate salaried clerk cannot be provided. It is not a satisfactory arrangement that the sub-registrar should do his own copying ; his handwriting is apt to be bad and the checking of his work defective. But in some offices where there is not sufficient work for a special clerk a non-official joint sub-registrar might be appointed to attend on one regular day every week, his clerk being paid by fees as in some offices now. The objection to a clerk serving two masters could be minimised under this plan by suitable arrangements between the sub-registrar and the township officer. An office open certainly once a week would be more useful to the public than one open twice as often on uncertain dates ; and some persons, unsuitable or unwilling to be non-official joint sub-registrars at busier places, might be suitable or willing to work on these terms.

759. We recommend that this plan should be tried at some existing offices, and also that with its aid should be studied the possibility of opening offices at those township headquarters which are not already provided with a registration-office and are more easily accessible from most parts of their township than is the present registration-office.

760. Court-fees.—The cost of litigation to recover loans is generally considered to be too high. From evidence before us it appears that it costs Rs. 200 to recover Rs. 1,000 and Rs. 50 to recover Rs. 100. The Nattukkottai Chettiars' Association has suggested that the collection of court-fees in instalments furnishes a means to reduce the costs of some cases which take up a particularly small amount of the time of the courts. The Association expressed its view as follows :—

Most of the pronote and mortgage suits are simple in nature and do not occupy much of the time of the Courts. The present scale of the Court fees on pronotes and mortgages hits hard the borrower or lender. Bankers, traders and poor land-owners suffer. It is suggested that the court fees ought to be ordered to be paid in three instalments. A third of the prescribed court fee may be ordered to be paid at the time of filing the plaint. If the decree is passed *ex-parte* no further court fee for the suit should be collected. If there is a contest, a second instalment of one-third fee may be collected before framing issues. If there is a settlement of the claim and if the contest is given up, no further fee should be charged. The third instalment may be collected before proceeding to trial. The Taxation Enquiry Committee recommended the above principle but it was in favour of collecting the fee in two instalments. It is submitted a change in the Court Fees Act prescribing the above three instalment system would be equitable. On an average promissory-note suits and mortgage suits take comparatively less time of the courts than other suits ; and reduction of court fees on these suits is justified.

761. In no other class of suits are confessions so general as in suits on promissory-notes and mortgages. Even in the other suits to which order 37 would apply if its scope were extended as we have recommended in paragraph 720, the proportion so determined is not so large.

762. Accordingly in view of the importance of developing banking and sound credit facilities in Burma, and in agreement with the principle advocated by the Taxation Enquiry Committee, we recommend adoption of the Nattukkottai Chettiars' Association's proposal that court fees in suits on promissory notes or mortgages should be payable in three instalments as described above.

763. Registration-Fees.—We consider that the fees for registering a deed of release from a simple mortgage or a reconveyance of a usufructuary mortgage should, at least outside Rangoon, be kept as low as possible. As the practice of using such deeds would simplify the investigation of title in land offered as security for an advance, it would eventually reduce the risk and cost of these advances, facilitate the financing of agriculture and help in depressing the general level of rates of interest. The present practice of merely giving the mortgage-deed to the mortgagee, after tearing out the King-Emperor's head from the stamp, is encouraged by the expense of registration ; whatever is possible to promote a better practice should be done. Registration

must necessarily give trouble to the parties by requiring attendance at the registration office ; but a reduction of fees would be useful in popularising the use of the deeds in question. A separate recommendation will be made with regard to stamp-fees ; at present only registration fees are to be considered. Seeing that in every case in Lower Burma and in most in Upper Burma a fee has been paid for registering the original mortgage, we recommend that no fee at all should be charged for the registrations in question when they are effected outside Rangoon and relate to property outside Rangoon. As non-official joint sub-registrars are remunerated with a share of the registration-fees, it may be feared that abolition of the fee would lead in some cases to carelessness with regard to these documents and delay in attending to persons presenting them ; we do not share this fear because in many cases the sub-registrar will still draw the maximum remuneration of his post. Moreover a reminder of the consideration that a fee had been paid for the original mortgage would operate in combination with the ordinary sympathy for a borrower to prevent such an abuse. But if Government for any reason hesitates about abolishing the fees in question entirely, it should fix them at one rupee, which is reckoned to be the average actual cost to Government of a registration. As there has been some controversy recently as to the fees authorised for registration of re-conveyances, we consider that an explicit statement of the fee should in any case be inserted in the Table of Fees.*

764. We recommend accordingly a notification that for the registration outside Rangoon of a deed of release from a simple mortgage or of a reconveyance of a usufructuary mortgage the fee shall, if all the mortgaged property is outside Rangoon, be nil, subject to provisions that a fee of one rupee shall be charged for every memorandum of such a document forwarded to another office under sections 64 to 67 of the Act and that for every copy of such a document forwarded to another office under those sections there shall be charged a fee in accordance with Article A or B of the Table of Fees, subject to a maximum of Rs. 10. It is not necessary to require in this notification that the original mortgage shall have been registered ; a deed of release will not be tendered for registration otherwise.

765. We further recommend in the same connection that Article B of the Table of Fees should be supplemented by a provision that the registration fee leviable outside Rangoon upon a receipt acknowledging payment by the mortgagor of money due under a mortgage of property entirely outside Rangoon should be as for a mortgage of the same amount but subject to a maximum of Rs. 2. This is the rate in force in Madras.

* This has been done since the Committee approved of this paragraph.—
Chairman.

766. We note in passing that while we were at work proposals to enhance registration-fees in general were made. We took the matter up with the Inspector-General of Registration, Burma, and we understand that in deference to the representations made by ourselves and some others certain of the proposals were withdrawn. In particular we advocated that no enhancement of the fees for registering documents of a value below Rs. 5,000 should be made, except by the establishment of a minimum fee of one rupee, which we understand is roughly the cost to Government of registering a document.*

767. Stamp-duties.—We recommend that the following reductions of certain stamp-duties should be made :—

- (a) The stamp-duty for a mortgage with possession should be reduced to be the same as the duty for a mortgage without possession.
- (b) The stamp-duty for a deed of release for a simple mortgage should be as for the mortgage subject to maximum of two rupees.
- (c) The stamp-duty for a reconveyance of mortgaged property should be as for a mortgage of the same amount subject to a maximum of two rupees.

768. The first recommendation was made in 1926 by the Indian Taxation Enquiry Committee †. The second is made for the reasons given in paragraph 763 for the reduction of the registration-fees for the same documents. The third recommendation has been substituted for the Taxation Enquiry Committee's proposal of two annas per Rs. 100 ; the change is made to be parallel to the second recommendation, the difference of financial effect being really negligible while the maximum is only two rupees.

769. In addition a recommendation has been made in paragraphs 343 to 346 for the reduction of the stamp-duty on bills of exchange and hundis not payable on demand.

770. Other Legislative Proposals.—Some other legislative or administrative proposals will be found in other chapters of this report dealing with special subjects ; e.g. paragraphs 191, 349, 413 and 577.

* Just before our work finished Government sanctioned a smaller enhancement than had been originally proposed.

† Report Volume, pages 223, 224.

CHAPTER XVIII.—MISCELLANEOUS.

771. Civil Order and Education.—After the maintenance of order the prime need of the country as a preparation for the development of banking is the extension or primary education, both literary and general, at least * to all of either sex in the social grades of those who can save or are engaged in production transport or trade otherwise than as wage-earners. This is a point which need not be discussed further here ; it is mentioned only to prevent it from being overlooked. Similarly we do no more than mention the special importance of the education of the girls, success in educating each generation depending so much upon the education of its mothers.

772. Health and Efficiency.—Following close upon education in importance are all measures to improve the health and efficiency of the people. Such improvements have an obvious bearing on the risk attached to loans, and they even improve the circumstances of loans which are amply secured upon material property ; no banker wants the trouble of enforcing his security, and the longer his clients live and remain efficient producers and earners unhampered by ill-health the less likely is such a contingency to arise. By reducing the lender's risks a possibility of reducing rates of interest is offered.

773. Buddhist Wills.—The collection of capital in Burma is obstructed by the inability of Burman Buddhists to make wills. A frequent result of the enforced division of the property of a deceased person is that its value gets broken up into parts which are separately too small to be of much use where there are no banks to collect them ; often the shares are frittered away as described in paragraph 114 through investing in some wasting property without providing for depreciation. Many more inheritances are dissipated in the law-courts than is the case in countries where wills are made ; legal disputes amongst the heirs of a person of substance almost invariably arise. Again, as in all countries in which intestate succession prevails, parental control is weakened and thrift is discouraged. Children, knowing they can not be deprived of their share of the property are more apt to become rebellious or spendthrift ; even in the lifetime of one of the parents a partition of the estate is often effected. The elaborate

* The minimum suggested does not imply a desire to limit any extension which may be desired on other grounds.

partitions of property in land under Buddhist law also cause a large part of the difficulty of instituting a system of registration of titles in land.

774. In 1882 and again in 1907 there was agitation amongst Burman Buddhists for the power to make wills. The question was revived again by the Young Men's Buddhist Association in 1916 and Government made fresh enquiries ; but the matter was not brought to any definite conclusion as Government thought it should wait till the new Legislative Council had been inaugurated. Since that date questions on the subject have been asked in the new Council ; resolutions have also been proposed but in one way or another have failed to be moved. We recommend that a report upon the discussion of 1916-19 should be prepared by some person well acquainted with Buddhist law and Burmese tradition and the law regarding wills made by non-Buddhists in Burma, and that this report should be published with a summary of the previous discussions, so that the matter may be reconsidered. We think it is likely that fresh enquiries after the previous discussions have been studied will reveal that opinion is generally in favour of giving the power. Even now it seems to be only Burman (and perhaps other indigenous) Buddhists who lack the power ; other Buddhists are said to have it already.

775. **Study of Banking and Accountancy.**—There are in Rangoon two accountancy schools recognised by the Accountancy Diploma Board, Bombay, and instruction in accountancy is offered in some other institutions. The development of the study of banking in Rangoon University through the gift of the Chettiar community has already been mentioned in paragraph 438.

776. **Price Statistics.**—We have used in paragraph 43 some index-numbers of prices in Rangoon. We think the Director of Statistics (Burma) should be enabled to prepare and publish these index-numbers for twenty years back on a broader basis and afterwards should publish numbers in the same series for each year as it passes.

777. **Transfer of Property Amendment Act.**—We have observed that the existence of the Transfer of Property (Amendment) Act, XX of 1929, and the Transfer of Property (Amendment) Supplementary Act, XXI of 1929 is known to only a few outside legal circles, although so large a number of the cultivating class are interested. We think Government should give publicity by explanatory articles in the *Headman's Gazette* and in other Burmese and Tamil newspapers to some of the main provisions of these acts, e.g. the proviso relating to conditional sales which is added to section 58(c) of the original Transfer of Property Act, 1882.

778. Foreign Banks.—In India proposals have been made for the protection of Indian banking, meaning that banks managed by Indians should not be subjected to the competition of foreign banks. In these proposals the term *foreign bank* includes banks incorporated in the United Kingdom and the British colonies but not European-managed or any other banks incorporated in India. But (as we have pointed out in paras. 8, 69 and 424) the term *India* is ordinarily used in Burma so as to exclude Burma, and the term *indigenous* cannot be properly applied to the Chettiar community in Burma. In the event of Burma being politically separated from India, banks in Burma which have been incorporated in India will thus be as foreign to Burma as banks incorporated in England or elsewhere. But we are opposed to protection for the present ; we think that in Burma at the present time it would be detrimental to the general welfare of the country. The agriculture of Lower Burma and much of its trade and industry are relying at present upon foreign capital.

779. Foreign Insurance Companies.—Objection has been raised in some quarters to the effect of the operations in Burma of life-insurance companies belonging to other countries. It is feared that they will use the funds collected in Burma to invest in other countries and will thus tend to drain capital out of Burma. We do not think any fear on this ground need be entertained. While Burma is so undeveloped financially that it cannot offer suitable investments to insurance companies, the advantages of having outside investments available outbalance the disadvantages of foreign investment because the provision of life-insurance is only thereby made possible. When Burma offers suitable investments they will be taken up as a matter of course by insurance companies operating in Burma, unless the rate of interest obtainable is lower than that obtainable elsewhere ; but that will mean the shortage of capital has been overcome. The need in Burma for the development of insurance of all kinds is so great, and the possibility of Burma companies supplying it in the near future is so small that nothing should be done to restrict genuine and safe insurance business in any way.

780. Currency.—In case Burma is separated politically from India we presume a separate Burma paper currency will be issued. Whether Indian rupees should continue to be used as they are used in Ceylon, or Burmese coins should be issued, will no doubt be one of the terms of the separation, to be determined on a balance with other considerations. The question of the paper currency is developed further in the next chapter.

781. If in case of Burma remaining bound to India a separate issue cannot be arranged, we recommend that arrangements should be made to provide more accurate statistics of the paper currency in Burma,

showing the withdrawals of Burma notes at all currency offices.* Burma is so much less intimately connected with the other provinces than they are with one another, and forms so distinctly an economic unit by itself that these statistics would be worth the cost of obtaining them. The difficulty is that some mark would have to be put upon the universal notes issued in Rangoon to allow them to be distinguished amongst the notes withdrawn; we think it should be possible to do this without any risk of injuring the credit of the notes in India. The statistics obtained would still be imperfect as a measure of the amount of currency in use in Burma, because no figures would be available for the Burma notes taken to India by travellers or by post and still in circulation there, or for notes issued outside Burma but brought over by travellers or by post and still in circulation here. The difference of these two errors would not however be too serious to be left to be allowed for in any interpretation of the statistics.

* See paragraph 90.

CHAPTER XIX.—THE ESSENTIAL PROBLEM.

782. **The Problem.**—The essential problem of the finance of agriculture industry and trade in Burma is the reduction of the rate of interest. Other matters can be improved ; but the reduction of interest is the foremost need, and, in conjunction with all that it implies and requires, would facilitate improvement in some other directions. There may be justification for high rates of interest in the conditions, so that relative to those the rates are not high ; in that case the conditions must be changed. There is no room for doubt that rates are *higher than they need be*. There are of course exceptionally high rates both in India and in Burma for risky loans and in special localities ; but, excluding these and considering only the ordinary rates, the comparison made when treating this subject in paragraph 121 showed that the ordinary rates in Burma are much higher than those in India.

783. Another interesting comparison is afforded by the Ceylon Money Lending Ordinance, No. 2 of 1918. In connection with some provisions similar to those of the Usurious Loans Act of India and Burma, it provides that if the interest upon a loan exceeds a certain rate it shall be deemed usurious unless the lender shows cause to the contrary. The rate so prescribed varies with the size of the loan ; for loans between Rs. 100 and Rs. 2,500 it is 18 per cent per annum, while for loans above Rs. 2,500 it is 15 per cent per annum. The ordinance says nothing in this connection about security. It is evident that Rs. 1'25 to Rs. 1'75 per cent per mensem, which are the ordinary rates for mortgage loans in Burma, would be regarded in Ceylon not merely as high but as usurious.

784. **A Difficulty of the Discussion.**—So much of the finance of agriculture industry and trade in Burma is supplied by the Chettiars that a discussion of the high rates of interest must inevitably appear to be a complaint against the Chettiars. We are anxious to make clear from the beginning that we are not offering any moral judgment. We regard the matter as the result of the interplay of non-moral economic forces, and we think it is only possible to solve its difficulties by approaching it in a purely scientific spirit. We express no animus whatsoever against the Chettiars, even if we assert that the prevailing rates of interest are too high and are maintained by them. Indeed we admit the claim that the Chettiars have reduced the prevailing rates in Burma. The rate of interest has always fallen in the past in any place in which the Chettiars have established themselves. High as are the present rates, they are less high than they would probably have been

without the Chettiars. Moreover the rates charged by lenders who are native to Burma are generally higher than those charged by Chettiars, and we are dealing with those as well as the Chettiar rates ; it is only the large share which the Chettiars have in the business which brings them forward so much in the discussion. Rates are even higher in Upper Burma where the Chettiars are less prominent than in Lower Burma.

785. Reasons for the High Rate of Interest.—Amongst the reasons for the high rates of interest in the past are most of the circumstances described in Chapter IV amongst the causes of indebtedness. Six reasons which may be selected as of primary importance to-day are (i) traditions of earlier times ; (ii) the newness of Lower Burma ; (iii) scarcity of non-Chettiar capital ; (iv) seasonal employment of capital ; (v) omission to create credit ; (vi) the risks of the lenders.

786. Traditions of Earlier Times.—Under the Burmese kings a certain amount of borrowing went on although a money economy was not established. There were many loans on a produce basis as well as some cash loans. Owing to the dearth of capital and the disturbed conditions in the later part of Burmese times rates of interest were high. Thus in more recent times the rates demanded by lenders, although so much higher than those paid in India, did not seem unduly high to the borrowers, who were therefore ready to pay them.

787. The Newness of Lower Burma.—The rapid development of Lower Burma in recent times has been brought to notice in Chapters II and IV. In the early stages of that development the risks and the shortage of capital justified high rates of interest. Later when the Chettiars were going about in the delta, inviting and encouraging people to borrow, capital was not really scarce in relation to the demand ; but the demand was artificially stimulated, and nearly all the capital was in the hands of a comparatively small group which was accordingly able to dictate the rate of interest. The borrowers were partly bewildered by the sudden change to a money economy and dazzled by the rise of paddy prices, and they had such confidence in their prospects that they did not demur. As time went on the force of custom maintained the rates, supported as it was by a sustained demand and by the circumstances that most of the capital was in the hands of a small class, that lenders of the borrowers' own race charged higher rates, and that still higher rates had prevailed in earlier times under the Burmese kings, and still prevailed in the Upper Burma villages from which many of the borrowers had migrated.

788. Scarcity of Non-Chettiar Capital.—The Chettiars are justified in their claim that they have supplied the capital required to develop Burma, and that no other agency has yet appeared that was

able and willing to supply capital as they have done. But it was inevitable that the monopolistic position they acquired should keep up rates of interest which were supported by tradition and by a strong demand. Their profit has been due partly to their compact organisation and their general financial capacity. By charging less than had been paid before, they secured their choice of borrowers, leaving those who required closer supervision to the Burman lenders living in closer proximity, and having the benefit of contrast with the higher rates charged by these lenders. Because of this shortness of other capital the Chettiars are able to make agreements amongst themselves in many towns as to the minimum rate of interest for secured loans. And we recall the claim of the Chettiars that they do not enhance their rates of interest for agricultural borrowers when the Chettiar current rate and *thavanai* rate rise. A lender who can ignore changes in the cost of his working capital must be in a strong position and be taking a good margin when that cost is low. There is ample evidence, that the margin has been good, in the large houses the Chettiars have built for themselves in Chettinad and in the increase of their capital.

789. In Upper Burma the Chettiars have played a smaller part than in Lower Burma ; apart from any monopolistic effect, the demand for capital for the country's continued development, of which some account has been given in Chapter II, has been sufficient to maintain the rates which tradition approved.

790. It was not possible for Burma to collect for herself all the capital needed for her rapid development. Denmark is the favourite example of enthusiasts for co-operation and self-help ; but Denmark helped herself to build up her great co-operative organisation by foreign capital. Denmark sold the bonds of the land-mortgage banks, which in that country are the chief sources of agricultural finance, in Paris, New York and London ; and even engaged to pay the interest and principal of some of the bonds in the currency of those places. Burma would have had greater difficulty than Denmark, even if this plan had been tried because so much further removed from international sources of capital. Burma has had also the difficulty arising from frequent division of property under the Buddhist laws of inheritance. It was fortunate for Burma that the large Chettiar source of capital was available, and perhaps it was really fortunate that this source was administered so as to build up reserves with which it could enlarge its supply. But Burma has not done what she could to collect and mobilise her own capital, and this failure has strengthened the Chettiar control of her agricultural finance.

791. **Seasonal Employment.**—To some extent the charges for Chettiar loans were enhanced through the seasonal character of the demand. It is doubtful whether this character is now of any

importance to Chettiars. The seasonal variation is not so large as before in proportion to the continuing loans, and the organisation of the Chettiars enables them to transfer their funds from rural parts of Burma to the towns and from Burma to other countries so as to find employment for them without serious irregularity. The seasonal demand does however affect other lenders by requiring them to get in part of the year the yield of much of their money for the whole year ; it thus weakens still further the competition against the Chettiars.

792. Omission to create Credit.—The principal functions of banking are (a) the collection of monetary capital ; (b) the lending of such capital to assist trade and industry ; (c) the transfer of rights to money from one place to another ; (d) the creation of credit to extend and cheapen the supply of monetary capital. Of these the last is the principal means of economy in financing the activities of communities which are advanced in banking. This economy is effected through the creation of credit in the following ways :—

- (i) by receiving a deposit of money and lending out a part of it while still undertaking to repay the depositor on demand ;
- (ii) by accepting as deposits cheques and cash drawn against loans and overdrafts * ;
- (iii) by issuing currency-notes and bank-notes.

The last way is used in Burma only by Government itself in its issues of paper currency notes and of silver rupees, which are in effect currency notes made of silver ; no credit is thus created except for the benefit of Government. Outside Rangoon the use of the other two ways is almost confined to the five branches of the Imperial Bank, eight branches of Dawsons Bank, one branch each of the National Bank and Chartered Bank, and the Bank of Upper Burma. Thus outside Rangoon the benefit of creating credit is almost restricted to Government. The importance of this is increased by the co-incidence, noted in paragraph 94, of the season of maximum net collections by government with the season of maximum need for credit and currency.

* When a bank grants a loan it shows a deposit of the same amount in the borrower's account ; the credit so created is immediately cancelled because the borrower naturally draws out all this deposit at once, having adjusted his loan to his needs so as to keep down the charges for it. But the cheques drawn against that deposit or against an overdraft, being paid in to the same or another bank, are accepted as deposits ; although this practice is not in any way unsound the deposits so created are in a sense fictitious, except to the extent to which the cash reserves of the banks are increased to correspond to the increased total of deposits. These fictitious deposits disappear when the advance is repaid. If the borrower takes cash instead of making payments by cheque the same effect arises in respect of so much of the cash as is returned to one or other of the banks. In Burma this creation of credit is limited by the practice of the borrower (or persons to whom the credit is passed on) drawing cash for payments to people outside the banking system, and therefore is of no importance outside Rangoon and restricted even within Rangoon. But in a country in which banking is widespread and cheques form a large part of the currency the credit created in this way is of great importance. (Note added by Chairman.)

793. Risks of the Lender.—Amongst the risks of the lender must be reckoned certain disqualifications of land as a security. Land is excellent security at ordinary times if the borrower's title is fully established. But as careful examination of title has not been in vogue amongst rural lenders, losses through defective title have not been infrequent. Further, in a year of poor yield or low prices, when a large amount of land within a narrow region falls into the hands of lenders at one time through numerous defaults of the borrowers, there is difficulty in realising it. This, and the risks affecting both production and marketing during the long period required to produce a crop, are the reasons in all countries for the scarcity and dearth of capital for agriculture *. These risks include cattle-disease and cattle-theft, the borrower's ill-health or early death, ill-health of the borrower's family or employees, all the risks of climate pests and other physical factors affecting the harvests. Progress in education and health administration and agricultural technique are needed to meet these risks. In addition there is the casual attitude of Burman borrowers towards arrangement of their affairs with a view to the repayment of their debts. We have already, in paragraph 116, expressed our view that this character is a temporary effect due to easy credit from an Indian source without adequate control ; education, the inculcation of habits of thrift and the institution of control by lenders should be effective in removing this, though the removal will naturally take quite two generations.

794. Vicious Circles.—Unfortunately the high rates of interest to which the risks of the lenders give rise are themselves the causes of enhancement of some of those risks.

795. In the first place the borrower at high interest more readily finds himself unable to pay the full amount of interest ; and in that case is easily discouraged from paying any at all. Whether he pays or does not pay what he can, the compounding of large amounts of interest, also bearing interest at a high rate, makes a second default happen still more easily ; and after that the difficulty accumulates rapidly. We have already mentioned in paragraph 121 the difficulty of agriculturists carrying stale loans at high rates of interest. It is evident that by these high rates lenders tend to injure themselves ; they cannot get out of the borrower altogether more than he earns above the minimum subsistence level, and they cause a psychological effect of discouragement.

796. Another serious effect of the high rates of interest is that the borrowers accuse the lenders of greed, and for that reason are more ready to take advantage of them, and less ready to make an effort to make regular payments, while the public, taking the same view, are sympathetic with the borrower in all difficulties between borrowers and

* *Agriculture and the Economic Crisis*, issued by the International Economic Conference of the League of Nations (1927) page 18.

lenders. The effect is greatly emphasised when the majority of the lenders belong to a foreign race which is regarded with contempt by the borrowers, speaks a language which none of the borrowers ever troubled to understand and can only speak the language of the borrowers with serious defects of articulation as well as of syntax ; all this goes far to increase the risks of the lenders.

797. A second vicious circle appears in the failure of Burma to accumulate its own capital. So long as such high rates of interest are payable for loans, the ordinary accumulation of capital cannot be on such a scale as to offer serious competition with the Chettiars and bring down their rates of interest. But competition would be the most effective way of bringing those rates down.

798. A third vicious circle appears when the matter is viewed from a position outside the special field of banking. The use of improved cattle, manures, improved strains of seed and improved methods, perhaps the introduction of new crops in areas now restricted to one : all these will increase the cultivator's power to pay for his finance. There is also the more general aspect of the problem which takes account of health and education, these being undoubtedly two of the most important factors in the problem. There is further the unduly large expenditure in supporting pongyis on a scale of comfort above that of most of their supporters ; and wastefulness of trifles, ostentation, improvidence, failure to provide for depreciation of cattle and implements have all played their part in company with other things in bringing about the present state of affairs and call for remedy. On further analysis, however, the principal defects can still be resumed under the four heads of education, health, technique, finance. Various agencies are struggling to deal with the first three heads ; but all are handicapped by the financial difficulty. The cultivator lacks the money to make advances in education, health and technique ; and he cannot afford to pay the high rates of interest incurred in borrowing that money. On the other hand without making those advances he seems doomed to continue lacking the money he requires to make them.

799. **Some General Considerations.**—It has often been said that a reduction in the rate of interest will lead only to a more expensive mode of living. But better farming, better business and better living are all required for rural life. So far as tenants are concerned any saving of interest will probably be transferred to rent ; their problem must be treated separately, * and is no reason for neglecting the cultivating owners whom it is the policy of the Government to maintain. In so far too as a saving of interest leads to higher expenditure, it also allows greater elasticity in expenditure, though education will be necessary to

* See paragraph 178.

make that useful. But a mere reduction of interest without other changes is an impossibility ; it would merely make lending unremunerative and bring agricultural credit to an end. Measures must be taken to reduce the expense and risk of the lenders ; and at the same time the rate of interest which itself adds to that risk must be reduced as far as the improved methods seem to permit.

800. It seems at first that lenders would suffer loss of profit if the rates of interest were generally reduced ; but, if at the same time a sense of responsibility for repayment could be given (or restored) to borrowers, the lenders would find compensation in the reduction of losses and in the smoother running of their business with less arrears and less recourse to law for enforcing their claims. They cannot really expect to get always the same profit as they did in some years when agriculture was flourishing vigorously and rapidly extending ; but they can hope to get a satisfactory profit and to get it steadily, and in the long run they would probably get, by their share in the general improvement of agricultural conditions, more profit than in the past. And they would get it under better conditions and without any fear of boycotts and other violent measures which have occasionally been threatened.

801. From the point of view of the lenders the situation is in fact the same as that which follows a boom period in every business. During the boom extravagant methods are tolerated ; but when a difficult time comes reforms must be introduced to prevent these methods from ruining the business. The present movement for the " rationalisation " of many industries in western Europe is an example of this. Much of the risk of lending in Burma has been due to bad practices of the lenders. There has been no distinction by lenders between cultivation expenses, long-term loans, fixed capital and emergency needs. There has been no care taken to see that there is a profit-earning activity in the background of a loan and no attempt to mark out a source from which the interest and repayment of a loan will be provided. There has been no attempt by lenders to encourage improved husbandry by the borrowers. There has been no practice of taking repayment of loans by instalments at each harvest so as to help the borrower build up a better position.

802. **The Point for Attack.**—We have pointed out the fourfold nature of the problem in its aspects of health, education, technique and finance, and we have drawn attention to the dependence of measures under the first three heads upon advance under finance, and of this advance upon improvement under the first three heads. We suggest that the solution of the problem is to be effected by providing a new banking organisation and reducing some of the lenders' risks.

803. Reduction of Lenders' Risks.—The most obvious means of reducing the risks of lenders are the rigorous selection of borrowers, close examination of the purposes of loans, preference to loans for productive purposes, care to see that loans are used for the purposes for which they are granted, the restriction of loans according to the paying capacity of the borrower, and (subject to special circumstances) insistence at every harvest upon the repayment of crop-loans in full and of a proper instalment of other loans. Proper investigation of title in land offered as security will also be of service ; but it is not of so much importance as the foregoing. Borrowers accustomed to the present conditions will not like the more rigorous control by lenders at first, but a sufficient reduction in the rate of interest to make it acceptable ought to be possible. It is more difficult to educate the lenders to make them take the precautions suggested ; this must be done through the supply of capital by the new banking organisation. The lenders must be supplied with cheap capital on condition that they take such precautions as we have suggested to make their lending safe ; they will then be able to attract borrowers by low rates of interest and select those who submit to the precautions and reach the new standards of security. Some reduction of lenders' risks should result also from the various measures proposed in Chapter XVII relating to the extension of the privilege of inserting a power of sale in mortgages, various reforms in the procedure in civil courts and registration offices, and improvements in the record of titles in land.

804. New Banking Organisation.—The spear-head offered for the attack upon the prevailing high rate of interest is a new banking organisation based upon a true central bank which would hold the banking reserves of the country, issue the only paper-money of the country as its own bank-notes, and provide the desired elasticity and mobility of currency and credit. We further propose (*a*) that a share of the bank's profits should be paid to Government in consideration of the right of note-issue and (*b*) that from that share Government should make subventions for a number of years to enable branch banks to be opened in important centres throughout the country. This use of the profit of the note-issue is the gist of our proposal. We have difficulty in explaining these proposals further because our wish to delay our report until the recommendation of Sir John Simon's commission with respect to the political separation of Burma from India is published has been denied. We have therefore to deal with two possibilities separately and to confine ourselves to broad statements.

805. If there is no separation the central bank must be (we suppose) whatever is made to be the central bank of India ; the banks to be opened with the aid of the subventions would be branches of an institution which may be called here the *Bank of Burma* and would

increase the resources provided by its own capital by discounting with that central bank, which in turn would hold its bills as cover for the issue of bank-notes. If there is separation the Bank of Burma which opens the branches should be the true central bank for Burma ; a country of the description given in Chapter II, with immense natural resources, with a total area of 230,000 square miles and extending to 135,000 square miles even when all the outlying and backward areas are excluded, and having a population of 12 to 13 millions in that smaller area, is large enough to support its own banking and currency system. The position of the Imperial Bank of India, whether separation comes about or not, cannot be discussed here although that bank is manifestly closely concerned ; the discussion would turn upon the terms of the separation or the constitution of the Indian central bank. For the present therefore we use the term *Bank of Burma* without precise definition, only emphasising that in case of separation it should be a bank and not a government department. To reduce the complexity of our further explanation of our proposals we are discussing them for the case of a separated Burma ; but we are anxious to emphasise that the plan, with the modifications necessary, is proposed also for the case of Burma's continued union with India.

806. The origin of our proposal is our observation that in other countries the general course of banking evolution has been through note-issue to deposit-banking, and that, while deposit-banking suits highly developed industrial countries, other countries less highly developed generally make a greater use of notes than of cheques. Note-banking has always preceded deposit-banking because the acceptance of bank-notes makes less demand upon the public confidence than the making of deposits and the acceptance of cheques. The confidence that deposit-banking requires can only come after years of sound banking. In Burma the first step has already been accomplished ; the people have already learned to use government's paper currency with confidence. But, as we have shown in paragraph 792, the full advantage of a paper currency in the creation of credit has not been used since Government took over the note-issue in 1862. Government has done something in recent years to provide one banking service by its facilities for remittance ; but it has not economised metallic money to any great extent, since it still holds a metallic reserve of about 75 per cent of its note-issue.* It is true that Government gets from the profit of its note-issue a revenue which would otherwise have to be provided by taxation ; but, if the credit resources of the people could have been enlarged as (if only the country had been willing some years ago to accept a proper paper currency freely) they might have been by a note-issuing bank, the

* 70 per cent in March 1929, and 81 per cent in March 1930. On the 30th June 1930 the percentage was 88, of which 20 was gold, the total circulation (for all India) on the same date being 1637·5 millions.

general prosperity would have increased and other sources of revenue would have yielded more without being more burdensome. Government might also have had a share of the bank's profit from the note-issue. In 1926 the Government of India itself recommended to the Royal Commission upon Indian Currency and Finance that the note-issue should be passed to the Imperial Bank of India ; and the same Royal Commission approved the transfer of the note-issue to a bank, though they proposed to establish a Reserve Bank for the purpose instead of giving the issue to the Imperial Bank.

807. We draw particular attention to the Bank of France as furnishing a useful object lesson for Burma. In France the metallic currency is economised by the use of notes, cheques being used to a far less extent. A special character of the Bank of France corresponding to this is found in the special facilities it gives for remittances and for discount of bills of exchange. Bills of exchange are drawn in France instead of cheques in settlement of nearly all transactions in which notes and cash are not used ; and a good authority has recently made the astounding statement that 90 per cent of the bank-endorsed bills rediscounted by the Bank of France are for sums of less than a hundred francs, that is to say, less than twelve rupees.* In theory the bank discounts bills as low as five francs ; before 1914 this limit was equivalent to about three rupees, and now it is only ten annas. Another important service rendered by the Bank of France is that of the safe custody of documents ; this is not confined to financial customers but is open to all at moderate charges. The Bank of France was founded, as we are proposing for the Bank of Burma, upon the right of note-issue.

808. The Bank of Burma should open an office at every important commercial centre in the country as soon as could be arranged, undertaking at every branch all the Government business of the place. Branches should be opened in other district headquarters too as might be convenient, and energetic efforts should be made to provide ample facilities for the deposit and remittance of money and for loans for all legitimate purposes at the lowest practicable rates, while still economising the metallic currency as much as possible by notes and current accounts. We place special emphasis upon the facilities for remittance because we expect that for some time notes will continue as in France.

* The statement was made by W. T. Hart in *Capital*, 9th January 1930. We find it difficult to accept this high figure of 90 per cent, although the French banks have the practice of selecting all their shortest-term notes for rediscount. The correct figure is certainly high all the same. It is said that in the Bank of France in 1912 the number of bills of exchange under 100 francs (then about 60 rupees) was 27 per cent of the total bills discounted (*Foreign Banking Systems*, edited by H. Parker Willis, 1929, page 559). Also that in 1913 at Paris alone 9.0 million bills were discounted and of these 4.6 millions or 50 per cent were under 100 francs, or Rs. 60. (*History of Modern Banks of Issue* by C. A. Conant, Sixth edition, 1927, page 70.) See also *Scottish Bankers' Magazine*, July 1929, and K. Le Cheminant's *Foreign and Colonial Banking Systems*.

to be used more than cheques. Good facilities for remittance are as important to a country as good communications. As in the Bank of France every branch of the bank should be ready to discount even very small bills provided they bear the requisite signatures. There would be no need to cut profit too finely ; a prosperous bank, strengthening its capital structure by accumulating a large surplus out of earnings, acquires stability which creates public confidence in it and enables it to serve the country better than a bank which is not making a profit. Government should keep enough control to see that the bank makes its profits *with* its customers instead of only *out of* them, and should take a share of the whole profits in recognition of the privilege of note-issue.*

809. It will naturally be asked whether a bank could do sufficient business to bear the cost of establishing so many branches. We think there need be no fear about this. Crop-loans will always expand as much as the service of long-term loans permits the cultivators to borrow. Improvement in agricultural technique will demand finance as soon as there is any possibility of getting it. In addition there will be a greater development of banking for internal trade, not only because facilities will be available, but also because the agriculturists, who form the bulk of the population, will be spending more to maintain a higher standard of living. Now even in the present dismal year of 1930 the average Rangoon price of boat-paddy for January to March has been Rs. 137, and only for very distant places or inferior grain can so low an estimate as Rs. 105 per 4,600 pounds of paddy be made for the average future local price of paddy. Taking this, however, as the average village value to get a conservative estimate, the seven million tons of paddy annually produced are reckoned to be worth about 350 millions of rupees, while that part which produces rice for export is alone worth over 200 millions. But since all Government of India currency notes coming to the Bank of Burma could be presented to the Government of India with a demand for payment in gold securities (if not paid in gold), there should be no difficulty in arranging for securities of the Government of India or gold securities to be held as cover for some of the notes in addition to Government of Burma securities for another part. The interest earned, after deduction of income-tax by the Government of India and expenses, may be taken as four per cent. Allowance must be made for metallic reserve held by the bank and earning nothing ; but a note-issue of forty million rupees should still be sufficient to earn a million rupees per annum apart from the ordinary commercial profit on the bank's transactions. Reckoning

* See answer by Sir Norman Murray to Question 9754 before the Royal Commission on Indian Currency and Finance, 1926.

Rs. 25,000 as the annual subvention of an ordinary branch this would provide for forty branches. Thus there is *prima facie* reason for believing that the bank could be built up on the lines suggested, provided only that the staff for it could be obtained. We think the Imperial Bank of India would probably give some help in this matter on suitable terms.

810. The change from Government currency notes to bank-notes is not likely to cause serious difficulty in Burma. The ready acceptance by the people of currency notes is not due to knowledge of currency reserves, but to the experience that value can always be obtained for the notes. Even in India before 1862 the notes of the old presidency banks were accepted freely in the presidency towns. The change from Government currency notes to bank-notes would have to proceed by degrees, and a little care would be necessary at the first issue. But it is significant that in Burma, when the old white currency notes were replaced by the green notes a few years ago, and again more recently when the present blue notes were first issued, there was no hesitation about the acceptance of the new notes. The portrait of the King-Emperor, which is so valuable in betraying forged notes, would not appear (we suppose) upon bank-notes; and this change might cause doubts. But all serious difficulty would be avoided by propaganda beforehand and special care to provide the old notes readily in exchange on demand during the transition period.

811. We do not for one moment pretend that a bank of the nature proposed would be able to provide *directly* the finance required by peasant cultivators and petty traders. Indeed the responsibility of the note-issue requires that the bank should be worked upon true central bank lines as far as possible, and should not discount one-name paper. We conceive of the bank as reaching the cultivators and traders through co-operative societies and Chettiars and other private financiers and later through other banks; this seems to be the best possible use to be made of present organisations for further development of banking, especially as the partnership organisation of Chettiars, with the frequent changes of partners, is less suitable for banking than a joint-stock organisation. As distributors of credit obtained from the central bank the Chettiars would find a profitable place and be of great service. District co-operative banks would provide a second endorsement on the bills of co-operators in the same way as the Caisses Régionales (district banks) in France endorse again, for discount at the Bank of France, the bills endorsed for their members by the Caisses Locales (village societies), and so connect the villager with the credit-controlling authority while still giving the latter the requisite special security for its advances. A favourable rate could be given for discounts for such paper endorsed by a district bank and thus bearing three names. The district branches of the Bank of Burma would be

able, however, to have local knowledge of village societies as well as of the district co-operative bank. We think also we should in this way provide the best safeguard for the sound development of the co-operative system, which would be compelled to satisfy the standards of commercial credit continuously, but would obtain access to the general money-market. Since the Bank of Burma's responsibilities as a central bank would allow it to make only short-term loans and loans for agricultural purposes up to nine months,* specialised land-mortgage banks for long-term loans would still be necessary to supplement the short-term co-operative credit societies. The cultivator would deal with the co-operative society and the organised land-mortgage bank if he chose ; or he would deal with the Chettiar and have the advantages of the personal relation of a private banker. Traders and industrialists, however small, would have a similar choice. Some landowners traders and industrialists with large estates or business would discount with joint-stock banks, who again could re-discount with the central bank ; the establishment and development of joint-stock banks would thus be encouraged.

812. Chettiers and other private financiers would be able to get advances from the district branches of the Bank of Burma as the Rangoon Chettiers now get advances from Rangoon banks, but with greater ease because of the greater facility for the bank to watch their business. By financing suitable banks Chettiers non-Chettiers and co-operative societies, the competition needed to keep down the rates of interest would be provided. Care would be necessary to prevent the Chettiers using in the Straits and elsewhere funds provided cheaply by the Bank of Burma. The Chettiers could not be prevented from transferring a large amount of their own capital to other countries and using the bank's advances in its place ; but so long as the bank is able to supply all the capital required no harm would result. The central bank would see that discounts granted to Chettiers were not excessive in proportion to their capital. Every bank financing agriculture industry and internal trade would have the benefit of a central bank ; suitable arrangements could be made to protect it from improper competition by the central bank, although the central bank must have power to enter the market when necessary to ensure that the interests of the public are safeguarded and are not subjected to any form of monopoly. The existing exchange-banks would continue to carry on the financing of foreign trade as now ; some adjustment of their sphere with those of the Bank of Burma and other banks which might grow up, might be desirable after some time, but that could be left for some years yet. This co-ordination could not fail to occur, because on the one hand there would be control by Government through an act constituting the

* Compare the discount of nine-months agricultural paper by the Federal Reserve Banks. See also paragraphs 343 to 345 of this report.

bank and through the bylaws of the bank, representation on the Board of Directors and a right to call for information ; while on the other hand there would be the bank's own realisation of the dependence of its own prosperity upon the general welfare of the country.

813. Objection to our proposal may be raised on the ground that a single bank would be given a monopolistic position which would be unassailable, and that the ultimate effect might be the restriction of the growth of banking because no other banks could grow. But, as we have pointed out just above, the power of the central bank to compete with other banks would be limited. Secondly, as in other countries, the central bank and other banks would co-ordinate their activities, Thirdly, there is the fact that under present conditions so few banks have grown up either in Burma or in India outside the ports and a few of the largest other business centres. Indeed we think that so far from preventing the growth of other banks the plan offers the best chance of getting other banks established, and of building up an organised credit system. The plan offers in fact the quickest road to the establishment of deposit-banking and acceptance-credit. The Bank of France has not only the advantage of the note-issue but also freedom to enter the money-market in competition with other banks. Yet other great banks have not only grown up under its shadow, but actually have been founded (*e.g.*, the Comptoir National d'Escompte de Paris) for the purpose of providing the additional signatures required for its discount of bills. In the same way the establishment and development of joint-stock banks in Burma would be encouraged. We think in fact that it is more practical to have such a bank as we project, and to retain power to deal with abuses as they arise, than to expect deposit-banking to be established without being preceded by note-banking as it has always been preceded in more advanced countries with better financial and educational development.

814. By transferring the note-issue to a bank Government would permit the volume of credit to be regulated in accordance with the needs of the country, expanding by degrees as the crop develops and is harvested and, subject to the needs of industry and trade, contracting as the crop is disposed of, so as to avoid inflation. Credit for agriculture and its marketing, and for trade and industry could all be created as required ; and channels for its distribution could all be developed readily. Confidence in banking as a system and in the particular banks would lead to a growth of deposits which in turn would provide the basis for a full development of banking, with still greater monetary economy and a further supply of credit.

815. **Other Progress Indispensable.**—We conclude with a reminder of the necessity of keeping in mind the fact that progress can not be made in any one of the directions of financial organisation,

education, health and the technique of agriculture and industry alone ; progress in all four directions must go on at the same time.

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MAUNG AYE.
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BA MAUNG.
MAUNG MYA.
M. SHWE THA,

RANGOON, *the 15th June* 1930.

Note 1.—Professor Jevons who was also a member of the Committee left Burma before the report was completed ; see paragraph 10.

Note 2.—The cost of the enquiry has been approximately Rs. 61,280 excluding the cost of printing the report.

Note 3.—Lists of the principal recommendations of this volume and of the contents of the second and third volumes of the report are given in the following pages.

INDEX TO RECOMMENDATIONS.

CHAPTER I.—INTRODUCTION.

PARA.		PAGE
20.	When surveys of the kind attempted by the committee are made they should be made by stationing at convenient centres investigators who would make regular visits on the same day of every week to each of a number of surrounding villages, keeping a record of borrowings and expenses as they take place	11

CHAPTER V.—SHORT-TERM CREDIT FOR AGRICULTURE.

145.	In regions in which credit is generally available in the ordinary form through banks, co-operative societies, Chettians or other private lenders, Government's advances under the Agriculturists' Loans Act should be restricted to assistance in cases of widespread distress	72
177.	(i) The most useful immediate measures for the improvement of agricultural finance are the improvement of agricultural technique and the improvement and extension of the co-operative system	86
	(ii) These imply amongst other things the use of improved and uniform seed, improvements in the public health and education as well as the improved financial machinery proposed in Chapter XIX to give better access to the general credit supply	86
	(iii) See the recommendation of paragraph 403	86
178.	Regulation of the circumstances of tenants is necessary as a preliminary to the improvement of their financial facilities	87

CHAPTER VI.—LONG-TERM CREDIT FOR AGRICULTURE.

189.	Mortgaged land should not be refused as security for a loan under the Land Improvement Loans Act, but Government should take a mortgage of such land with the priority conferred by section 7 of the act, the rights of existing mortgagees being properly safeguarded by better arrangements for publishing and serving notices under section 5	92
191.	(i) The Burma Land Improvement Rules should be re-drafted and the policy on which they are based should be fully explained in the departmental directions	93
	(ii) After that fresh efforts should be made to bring the facilities to the knowledge of cultivators	93
192 to 194.	Joint-stock and co-operative land-mortgage banks are both desirable, each suiting a different class of land-owners	93
200.	The land-mortgage banks should endeavour to strengthen the short-term co-operative credit system as much as possible	98
202.	<i>Government should guarantee the interest on debentures of land-mortgage banks (Minority dissent)</i>	99
204.	<i>Debentures of land-mortgage banks should be declared suitable for the investment of trust-moneys (Minority dissent conditionally)</i>	99
205.	<i>Interest on debentures of co-operative land-mortgage banks (but not joint-stock land-mortgage banks) should be exempt from income-tax (Minority dissent)</i>	100

CHAPTER VII.—CREDIT FOR MARKETING AGRICULTURAL PRODUCE.

PARA.	PAGE
209. A way should be sought to give a transferable title to holders of State land	101
238. A possibility of improvement in the marketing of paddy may be found in the development of sales by samples brought in by cultivators to a convenient centre where the present jungle-broker might become a commission-agent.	110
239. (a) Uniformity of grain should be encouraged	110
(b) Co-operative societies should control their members with respect to the types of paddy grown and the use of selected seed and adulteration of the harvest	111
242. The Agricultural Department should not be distracted from its field-work to organise regulated markets for crops	112

CHAPTER VIII.—CREDIT FOR INTERNAL TRADE.

277. The employment of usance bills of exchange should be encouraged; see also paragraph 339 in Chapter XIa and the recommendations of Chapter XIX	125
---	-----

CHAPTER IX.—CREDIT FOR INDUSTRIES.

291. The financing of cottage industries is best done through Chettiairs or professional moneylenders working on similar lines or co-operative societies	133
292, 293. The time for an industrial bank (to supply capital for an indefinite period) in Burma is not yet ripe; current finance can be provided by the banks proposed in Chapter XIX and the Chettiairs and other banks and money-lenders	133
298. Rice-millers must have sufficient resources to obtain current finance as well as fixed capital before beginning the business and must provide for depreciation of plant and keep proper accounts	136
300 to 302. Care is required in planning the development of supplementary occupations for practical agriculturists who are owners or tenants	137
303. (i) In the wet zones the cultivator who is an owner or tenant with a full-sized holding requires his spare time for recuperation; in the drier zones where more time is available development should be in the direction of occupations closely related to the agriculture	138
(ii) The period of physical recuperation required by agriculturists should be used for self-culture, largely of an artistic character	139
(iii) Travelling adult schools and short courses on such subjects as agriculture and housewifery should be provided	139
304. The problem of occupations for agricultural labourers is rather to provide whole-time employment for an unemployed part of the labourers than to provide part-time employment for all	139
305. (i) Industries to absorb agricultural labourers should be sought amongst those that would utilise agricultural or forest products which are now wasted or are of too low grade to get a profitable price when used for other purposes	140
(ii) The recommendations of the Technical and Vocational Education Committee, 1927, should be taken up again	140

CHAPTER X.—MISCELLANEOUS CREDIT.

312. Government should pay its menials and lower division clerks weekly as an example to induce other employers to adopt the same plan	143
313. Banks might consider experimenting with personal loans on a plan like that used in New York by the National City Bank	144

CHAPTER XI.—CREDIT INSTRUMENTS AND DOCUMENTS OF TITLE.

PARA.	PAGE
343 to 345. Stamp-duty on usance bills and promissory-notes up to nine months usance should be reduced	156
345. Stamp duty for bills of more than nine months should be the same as for a bond	157
349. Definition of <i>bill of exchange</i> in the Indian Stamp Act should be amended	157
350. The Negotiable Instruments Act should be made to apply in full to bills of exchange in a language indigenous to Burma ...	158
351. The term <i>huudi</i> in Burma should exclude all bills of exchange and promissory notes to which the Negotiable Instruments Act applies in full	158
352. Standard bill-forms in English and Burmese should be provided for optional use	158

CHAPTER XIb —REMITTANCE.

361. Savings-bank depositors should be allowed to credit or debit money orders to their accounts	162
362. Money-order forms should be enlarged	162
368. Balances of some surplus sub-treasuries should be reported to Rangoon more frequently	164
384. Postal-orders for internal remittance in India or Burma should be issued	169
389. Letters of credit should be issued and paid by post-offices at district headquarters subject to transfer of the work to a bank when feasible	171

CHAPTER XII.—Co-OPERATIVE CREDIT.

392, 405. Co-operative societies should hold fast to sound business methods, cure the defects which the committee describes as the principal causes of the recent crisis, avoid locking up capital in long-term loans and endeavour to collect local deposits both from members and from non-members	172
393, 398. Loans repayable at next harvest should be the principal business of primary societies. Other loans should be forbidden except loans to buy plough-cattle in societies where the members usually employ only one or two yoke	173
394 to 398. All loans to be more adequately controlled; purposes to be stated in specific detail; loans to be given in instalments as required and promptly and vigorously recovered	173
395. Committees of societies to meet frequently; societies to be confined to small areas; number of societies to be limited to those that can be supervised and trained thoroughly	174
396. Societies should keep separate accounts of loans for which the time of repayment has been postponed	174
398. The credit of every member who manages his affairs extravagantly or does not treat his plough-cattle in the best way should be restricted	175
400, 401. Official control of societies is generally inadvisable; control should rather be by societies over themselves and by central banks ...	175
403. The question of legislating to permit the creation of an "agricultural charge" should be examined	176
408. <i>Central banks which can make arrangements for liquid resource should be free to accept current accounts without restriction</i> (Minority dissent)	178
409. Urban banks should be permitted to accept current accounts subject to certain conditions	180

PARA.	PAGE
411. Money-order commission should be reduced for co-operative societies	181
413. (i) Present exemptions of co-operative societies from stamp-duty and registration-fees should continue	181
(ii) An additional exemption should be given for the stamp-duty on arbitrators' awards	181
414. <i>Present rules relating to income-tax upon the income of societies and upon payments made by societies to continue with the additional exemptions from tax of—</i>	
(a) <i>interest on securities held by a co-operative society and issued by Government or a local authority.</i>	
(b) <i>interest paid by a co-operative society on debentures issued by it.</i>	
(Minority dissents on both points and makes comprehensive alternative proposals.)	181
417. Public funds should be allowed to be deposited with co-operative banks. (<i>Minority dissent with respect to current accounts; see paragraph 408.</i>)	183
420. (i) Closer connection between co-operative banks and the general banking system should be striven for	184
(ii) Co-operative banks should aim at conferring a higher degree of liquidity upon their paper for discount with other banks	184
(iii) Rates of interest on deposits in co-operative banks should be reduced as soon as possible	184
421, 422. Government should not supply working capital on a large scale for co-operative banks as a permanent arrangement. (<i>Dissent as to the early contraction of the assistance now given as a temporary measure in a crisis.</i>)	185
423. The desirability of appointing a committee on co-operation for all India should considered	185

CHAPTER XIII.A.—INDIGENOUS BANKING.

No recommendations
---------------------------	-----

CHAPTER XIII.B.—THE CHETTIAR SYSTEM.

518. <i>Those Chettiars who accept deposits payable on demand should make provision for liquid resources in some way less likely than their present methods to become useless in a crisis</i> (Chettiar member dissents)	231
520. Possibly a bill of exchange payable on the day after presentation should be given a distinctive name and the First Schedule to the Stamp Act amended accordingly	232
521, 523. Chettiars should make stricter enquiry into the title of agricultural land mortgaged to them and should be more strict in collecting the land-revenue receipts every year and retain them till the loan is repaid	233
554. The Commissioner of Income-tax should take steps to ensure early return of account-books borrowed by income-tax officers from Chettiars for checking the accounts	244
555. The income-tax of Chettiars should be collected when repayments are being received, and should possibly be collected in two or more instalments	244
558. The Income-tax Department and the Nattukkottai Chettiars' Association should endeavour to work out jointly a more satisfactory system for the assessment of Chettiars, and Government should place a suitable officer on special duty for the purpose	245

CHAPTER XIV.—OTHER INDIGENOUS FINANCIERS.

No recommendations
---------------------------	-----

CHAPTER XV.—PAWNBROKING.

PARA.	PAGE
577, 578. A Pawnbrokers Act should be passed to apply to all pawnshops in Burma	256.
581. Periods of redemption outside municipalities and notified areas should be fixed by rule	258.
583, 585. Charges for interest to be fixed by a table and to be on a reduced basis for small loans for short periods	259
587. <i>Minority proposal for an experiment with State pawnshops</i>	260.

CHAPTER XVI.—COLLECTION OF CAPITAL.

594. Banks in Burma should consider the provision of facilities for banking by post	269.
595. Banks in Burma should accept Burmese signatures on cheques	269.
596. Government's willingness to accept at places where there is a branch of the Imperial Bank crossed cheques drawn on banks which have clearing accounts should be made more widely known	270.
597. All Government treasuries should accept cheques drawn by approved local banks upon a bank which is either a member of the Rangoon clearing or is represented on it	270.
605. (i) Effort to popularise post-office savings-banks should be concentrated upon industrial trading and administrative centres	273.
(ii) Heads of factories and offices should arrange to make deposits and withdrawals on behalf of employees who cannot attend at the post-office when that is open for savings-bank business	273.
(iii) Post-offices should open on some evenings for savings-bank business in some of the largest towns	273
606. (i) Headings of columns in post-office pass-books should be in Burmese as well as English	274
(ii) The rules of the post-office savings banks should be printed in the pass-books in Burmese as well as English, the more important being given separately	274
607. The provision of home-safes for post-office savings depositors should be tried	274.
608. The maximum amount permitted to be deposited in one year in a post-office savings-bank account should be increased from Rs. 750 to Rs. 1,500	274
609. The maximum amount to be held to the credit of any one post-office savings-account should be increased from Rs. 5,000 to Rs. 10,000, subject to restrictions upon withdrawals in certain places	275.
610. Post-office savings depositors should be allowed to nominate persons to receive their deposits after death	275
611. Burmese Buddhist husbands and wives should be permitted to have joint savings-accounts in the post-office	275
612. (i) The rate of interest should not be raised so as to be inappropriate for savings-deposits with government security in comparison with rates paid by banks and earned by government-paper	275.
(ii) The present rate is suitable now	275
613. Post-office savings-banks should not be used as safe-deposits or as loan-offices, and their deposits should not be lent to local co-operative societies	276
614. Government should maintain proper reserves against post-office savings-bank accounts as an addition to those required for the paper currency	276.

PARA.	PAGE
615. An enquiry should be made into the causes of the high averages for deposits and withdrawals in post-office savings-banks ...	276
616. Co-operative banks and societies should endeavour to collect savings-deposits	276
621. <i>The issue-price of post-office cash-certificates should be reduced to 75 per cent of the face value, and the graduation of redemption-rates revised.</i> (Minority recommends increasing the price to 82.5 per cent.)	278
622. Facilities for safe deposit of post-office cash-certificates in the local treasury should be provided through the post-office ...	281
623. A holder of post-office cash-certificates should be allowed to nominate a person to whom they would be transferred in case of his death	281
624. The position of Burmese Buddhist husbands and wives, owning certificates either jointly or in separate names, should be made clear in advertising the certificates in Burma ...	281
626. A public-debt office should be established in Rangoon ...	282
627. <i>Government loans should be issued free of income-tax.</i> (Minority view is that none should be so issued)	282
628. (i) The minimum amount remitted free by treasuries for the purchase of government securities should be reduced to Rs. 1,000	283
(ii) Sub-treasuries also to receive money to purchase securities up to Rs. 2,000	283
(iii) The proceeds of selling government securities through a treasury should be remitted free to any treasury ...	283
629. Standard forms of endorsement in Burmese for government promissory-notes should be prescribed and Burmese signatures accepted	284
634. The post-office rules with respect to government securities should be designed with a view to facilitating transactions in government securities by all small investors and not merely to provide facilities for savings-bank depositors	285
634, 635. The post-office should undertake to sell government securities for any person, whether a savings-bank depositor or not, up to Rs. 2,000 nominal value in one calendar year, although the holder may not have bought through the post-office; for securities bought through the post-office there should still be no limit	285
637. (a) Every savings-bank post-office should accept for safe custody government promissory-notes and stock-certificates up to a total nominal value of Rs. 30,000 without liability to income-tax and without reference to the manner of purchase ...	286
(b) Deposit of government securities with the post-office for safe custody should not confer exemption from income-tax, but the interest upon securities so deposited should be paid without deduction of tax at source	286
(c) The income-tax department should make its own arrangements for assessing the interest, and should be permitted to inspect the post-office records of deposits for the purpose ...	286
638. (a) Persons depositing government securities with the post-office should be required to maintain a savings-bank account to which the interest on the securities should be credited ...	287
(b) Post-office Rule 49 should be amended by adding a provision that no interest will be paid while no savings-account is maintained	287
(c) In case of the death of a depositor of government securities his executor should be allowed to have a savings-account for the estate until the securities are transferred to new holders ...	287

PARA.

PAGE

641. (i) Government should not undertake life-insurance business for the public, but should help the development of life-insurance by improvement of vital statistics and should set an example to other employers by granting facilities for remitting premia deducted from salary bills of employees of grades in which banking accounts are not usually kept	288
(ii) Other employers should also arrange to pay insurance premia by deductions from salary bills for employees who have no banking accounts	288
643. Government should allow local funds to place money on fixed deposit or savings-account with banks, and should experiment with allowing deposits of such funds on current account ...	289
644. Local bodies having current accounts with banks should be encouraged to pay their employees of suitable grades by individual cheques	289
646. Government's borrowings should be arranged principally to suit the smallest investors and the banks and insurance companies	290
647. A National Thrift Committee should be established ...	291

CHAPTER XVII.—LEGISLATION AND ADMINISTRATION.

652. In each law the definition of <i>bank</i> or <i>banker</i> should be adapted to the special objects of the law	293
655. Certain amendments should be made in the Bankers' Books Evidence Act, 1891, pending the establishment of a register of banks (see 661 below)	294
658. The definition of <i>banker</i> in the Indian Stamp Act, 1899 should be revised as indicated	295
661. A register of bankers should be established	296
664 to 666. Pending the establishment of a register of bankers a definition of <i>banker</i> as suggested should be inserted in the Negotiable Instruments Act, 1881	297
669. Definitions of <i>business of banking</i> and <i>banker</i> proposed for the Indian Companies Act, 1913	299
673. Definition of <i>customer</i> proposed for the Negotiable Instruments Act, 1881	301
675. An explanation as proposed should be added to section 131 of the Negotiable Instruments Act, 1881	302
678. The position of a banker crediting as cash a cheque received from his customer for collection requires early consideration...	303
679. An explanation as proposed should be added to section 10 of the Negotiable Instruments Act, 1881	304
685. The draft bill (rejected in September 1929) for amending the Negotiable Instruments Act should be adopted after modification by omitting its clauses 2 (a) and (b) and amending the statement of objects and reasons	306
686. If there is apprehension that instructions on the face of a bearer hundi will be ignored as a consequence of adopting the last recommendation hundis should be excluded from the operation of the new act	307
687. The protection given to bankers by section 85 of the Negotiable Instruments Act, 1881, should be extended to include endorsements subsequent to that of the payee... ..	307
688. A definition of <i>negligence</i> as proposed should be inserted in the Negotiable Instruments Act, 1881	307
692. An explanation as proposed should be added to the definition of <i>negligence</i> proposed in paragraph 688	309

PARA.	PAGE
693. See recommendations noted above for paragraphs 350 and 351.	309
699. The Usurious Loans Act, 1918, should be amended as proposed.	311
701. Steps should be taken to bring the Usurious Loans Act and its amendment to the notice of the public ..	313
702. The inclusion in the annual Civil Justice Reports of a special report upon the working of the Usurious Loans Act should be reconsidered ...	313
703. Judicial officers should be more fully instructed to appreciate the meaning of the term <i>interest</i> in the Usurious Loans Act ...	313
704 to 708. An act on the lines suggested to control professional money-lenders should be passed and applied to Rangoon ...	313
711. An explanation is proposed for addition to certain sections of the Indian insolvency acts to protect a banker honouring cheques drawn by an insolvent in certain circumstances ...	316
714. The provisions of section 47 of the English Bankruptcy Act, 1914, relating to property acquired by a bankrupt after adjudication, should be added to the Indian insolvency acts, with such further amendments as may be required on this account ...	318
716. A provision on the lines of section 4 of the English Bankruptcy (Amendment) Act, 1926 should be added to both the Indian insolvency acts ...	319
717. The subordinate civil courts should be encouraged to award daily costs after the first day's hearing in cases of obstruction	319
719. The power to use the summary procedure of Order 37 under the Civil Procedure Code should be conferred upon all district courts in Burma and upon all subdivisional and township courts in the Pegu and Irrawaddy Divisions and in the Akyab, Amherst and Mandalay Districts ...	320
720. Order 37 under the Civil Procedure Code should be extended as in Bombay to include certain other suits in the High Court of Judicature, Rangoon, and in district courts ...	320
721. The High Court of Judicature, Rangoon, should be informed of certain points to which witnesses attached importance as tending to reduce delays in disposing of mortgage-suits ...	321
722. The prescribed interval of six months between the preliminary and the final decree in a mortgage suit should be reduced to two months ...	321
723. Sub-rule (2) of Rule 66 of Order XXI under the Civil Procedure Code should be amended to give decree-holders of suits which have gone by default an option whether the notice should be issued to the judgment-debtor or not ...	322
725. The power of civil courts to alter the contract rate of interest from the date of suit to the date of decree should be withdrawn for money-suits where there is a clear contract that interest shall be paid till date of realisation at the contract rate ...	323
727. Instructions should be issued by the High Court of Judicature, Rangoon, to all subordinate courts pointing out that the rate of 9 per cent per annum reckoned from the date of decree to realisation should not be regarded as a maximum rate, but that the court should fix a rate which having regard to all the circumstances seems fair and reasonable ...	323
728. The Transfer of Property Act, 1882 should be entirely re-drafted	324
732. The whole of the Pegu and Irrawaddy divisions and the Akyab district and Mandalay town should be notified under section 69 (1) (c) of the Transfer of Property Act as amended in 1929 ...	325
748. (i) As a cautious beginning the power to make mortgages by deposit of title-deeds should be extended to the headquarters of all registration districts and sub-districts in the Pegu and Irrawaddy divisions, subject to certain provisions for registration and for limitation of period ..	330

PARA.	PAGE
748. (ii) Act XX of 1929 should be amended to permit such extension to any region instead of any town	330
(iii) Thereupon the extension advocated above should be enlarged to cover all Pegu and Irrawaddy divisions	330
(iv) Reports by post should be accepted (paragraph 744) subject to penalties for false reports	330
750. In case the proposals of paragraph 748 are not acceptable in the four towns of Rangoon, Moulmein, Bassein and Akyab the power to make mortgages by deposit of title-deeds in those towns without the proposed registration and limitation should be restricted to mortgages of property situate within the town	331
753. The question of establishing a system of registration of title in land should be re-examined	333
754. The procedure for obtaining a land-holder's certificate should be shortened and cheapened as suggested	333
755. Registration of <i>lis pendens</i> should be required on the lines suggested	333
756. Searches for all incumbrances resting upon a specified piece of property or all documents executed by or in favour of a specified person should be undertaken in offices of registration of deeds	334
759. A plan is suggested for facilitating the opening of more offices for registering deeds	335
760. Court fees in suits on promissory notes or mortgages should be payable in three instalments	336
764. The fee for registering a deed of release from a simple mortgage or a reconveyance of a usufructuary mortgage should be abolished (or reduced) for property outside Rangoon subject to the payment of certain fees in special cases	337
765. The fees for registering outside Rangoon a receipt acknowledging payment by the mortgagor of money due under a mortgage of property entirely outside Rangoon should be as for a mortgage of the same amount but subject to a maximum of Rs. 2	337
766. The fees for registering mortgages of land for an amount below Rs. 5,000 should not be enhanced (above those in force in April 1930) except so as to establish a minimum fee of one rupee ...	338
767. Certain stamp-duties should be reduced	338
769, 770. See the recommendations of paragraphs 191, 343 to 346, 349, 577 and other parts of the report for further proposals relating to legislation or administrative procedure	338

CHAPTER XVIII.—MISCELLANEOUS.

774. A summary of the previous discussions of the question of conferring upon Burma Buddhists the right to make wills should be published and the matter reconsidered	340
776. The Labour Statistics Bureau should be enabled to publish index-numbers of prices in Rangoon for twenty years back on a broad basis and extend the series afterwards for each year as it passes	340
777. Certain of the amendments of 1929 to the Transfer of Property Act should be made widely known	340
778, 779. No attempt should be made at present to restrict the working of foreign banks or insurance companies in Burma	341
781. Statistics of the circulation of paper money in Burma should be obtained	342

CHAPTER XIX.—THE ESSENTIAL PROBLEM.

PARA.		PAGE
782.	The essential problem of the finance of agriculture industry and trade in Burma is the reduction of the rate of interest ...	343
804 to 806.	A true central bank should be established for Burma (assumed to be separated politically from India) and should hold the banking reserves of Burma and issue the only paper money of the country as its own bank-notes, and establish a number of branches all over Burma through which other banks, including private banks and co-operative banks, and moneylenders could be financed. In case Burma is not separated from India the best possible approach to the same arrangement to be made ...	350

CONTENTS OF VOLUME II.

PART A.—SURVEYS.

- I. Agricultural Finance in Selected Localities.
- II. Rural Enquiries in Pyapon District.
- III. Urban Enquiries in Pyapon District.
- IV. Lenders in Selected Towns.
- V. Financial Surveys in Selected Towns.
- VI. Finance of Selected Industries.
- VII. Post-office Banking
- VIII. Miscellaneous Statistics.

PART B.—APPENDICES.

- IX. Post-office Facilities for Investors in Government Securities.
- X. Inspection of, and Extracts from, Registration Books in Madras Presidency.
- XI. Travelling Bazaars in Thayetmyo District.
- XII. The Working of the Usurious Loans Act.
- XIII. Standard Questionnaire for Provincial Banking Committees issued by the Central Committee.

PART C.—QUESTIONNAIRE.

- XIV. Questionnaire in English.
- XV. Questionnaire in Burmese.
- XVI. Index to Chapters and Subjects of the Questionnaire.

CONTENTS OF VOLUME III.

1. Replies to the Questionnaire.
2. Classified List of Witnesses replying to the Questionnaire.

